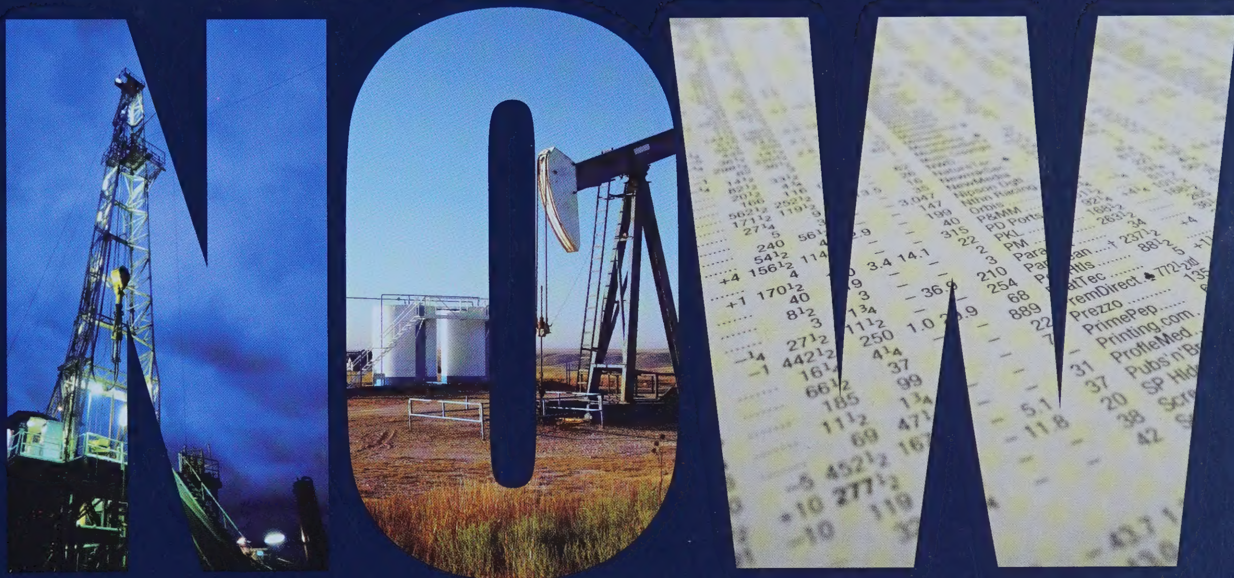
GEOCAN Energy Inc.



TSX: GCA

2005 ANNUAL REPORT

CORPORATE PROFILE

GEOCAN IS A CANADIAN CRUDE OIL AND NATURAL GAS EXPLORATION, PRODUCTION AND DEVELOPMENT COMPANY WITH OPERATIONS FOCUSED IN BRITISH COLUMBIA, ALBERTA AND SASKATCHEWAN.

OUR STRATEGY IS TO:

- GROW VALUE ORGANICALLY THROUGH THE DRILL BIT ON COMPANY-OWNED LAND;
- GROW VALUE THROUGH ACQUISITIONS THAT ARE ACCRETIVE TO SHAREHOLDERS;
- ACHIEVE A BALANCED ASSET MIX OF NATURAL GAS, LIGHT AND MEDIUM OIL, AND HEAVY OIL; AND
- PRACTICE FISCAL DISCIPLINE AND OPERATIONAL CONTROL WHILE MAINTAINING A BALANCED RISK PROFILE.

OVER THE PAST TWO YEARS, GEOCAN HAS MADE TWO MAJOR ACQUISITIONS TOTALLING APPROXIMATELY $56 MILLION, WHICH SIGNIFICANTLY INCREASED MARKET CAPITALIZATION AND REBALANCED THE COMPANY'S PRODUCTION AWAY FROM A LARGELY HEAVY OIL WEIGHTING AND TOWARD MORE NATURAL GAS AND LIGHTER OIL.

BASED IN CALGARY, GEOCAN TRADES ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL "GCA". AT THE BEGINNING OF 2006, GEOCAN HAD 54.5 MILLION COMMON SHARES ISSUED AND OUTSTANDING.

ANNUAL GENERAL MEETING

YOU ARE INVITED TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF GEOCAN ENERGY INC. TO BE HELD AT 3:00 P.M. ON MAY 1, 2006 IN THE VIKING ROOM AT THE CALGARY PETROLEUM CLUB, 319-5TH AVE S.W., CALGARY, ALBERTA.

Those unable to attend are asked to sign and return the proxy form mailed with this report.

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2005 Highlights

Independently assessed reserves value up 230%

2005 proved + probable reserves (P+P) value up 230% to $135,005,000 (NPV10%) compared with $40,895,000 (NPV10%) in 2004

Independently assessed volumetric reserves additions up 105%

Total proved + probable reserves up 105% to 7,895,300 boe's compared with 4,031,200 in 2004 and evenly distributed between natural gas (33%), light oil and medium oil (30%) and heavy oil (37%) compared with 80% weighted to heavy oil in 2004

3,414 boepd

Exit production volumes of 3,414 boepd in 2005, up 70% from the 2,006 boepd exit level in 2004. We exited 2005 with 46% heavy oil, 32% natural gas and 22% light and medium oil – a substantial shift from the 86% heavy, 10% gas and 4% light and medium at the end of 2004

Finding and development costs better than industry average

Total P+P finding and development costs in 2005 equal to $13.21/boe, proved – $13.96/boe

199% increase in total capital assets

Total capital assets increased 199% to $107,639,000, from $35,940,709 at the start of the year

1:3.3 debt to equity coverage ratio

Total shareholders equity of $67,779,426 versus $20,821,235 million of total net debt

128,818 acres undeveloped land, up 67%

Gross undeveloped land increased 67% to 128,818 acres (101,697 net), compared with 77,100 (69,265 net) in 2004.

Gross revenues up 99%

Gross revenues from all sources of $33,381,746, up 99% from $16,788,351 in 2004

Cash flow up 97%

Cash flow up 97% to $12,972,434, compared with $6,590,332 in 2004

5.4 times coverage market capitalization to total net debt

Year-end market capitalization of $111,686,660 versus total corporate debt of $20,821,235

87% drilling success

An 87% success rate on 23 wells drilled, resulting in 11 oil wells and nine natural gas wells

GROWING ENTERPRISE VALUE

GEOCAN's enterprise value has grown to over $130 million today from $200,000 when we founded the Company in 1998

BALANCED COMMODITY MIX

By the end of 2005, our proved plus probable reserves are now balanced at 33% natural gas, 30% light and medium oil and 37% heavy oil, a significant shift from the 80% heavy oil weighting at the end of 2004

INCREASING PRODUCTION

GEOCAN exited 2005 at 3,414 boepd, up 70% from 2,006 boepd exit volumes in 2004, and 901 boepd in 2003. We are targeting 2006 exit production of between 4,000 and 4,500 boepd

HIGH OPERATORSHIP

GEOCAN operates over 80% of its production, providing us strong control over exploration and production priorities, as well as costs

LARGE PORTFOLIO

GEOCAN now has a substantial portfolio of undeveloped land – 101,697 net acres, mostly in gas-prone areas – as a result our growth potential has never been greater

FOCUSED GEOGRAPHIC FOOTPRINT

We have three core areas – Lloydminster/Chauvin (Alberta/Saskatchewan border), west central Alberta and northeast British Columbia

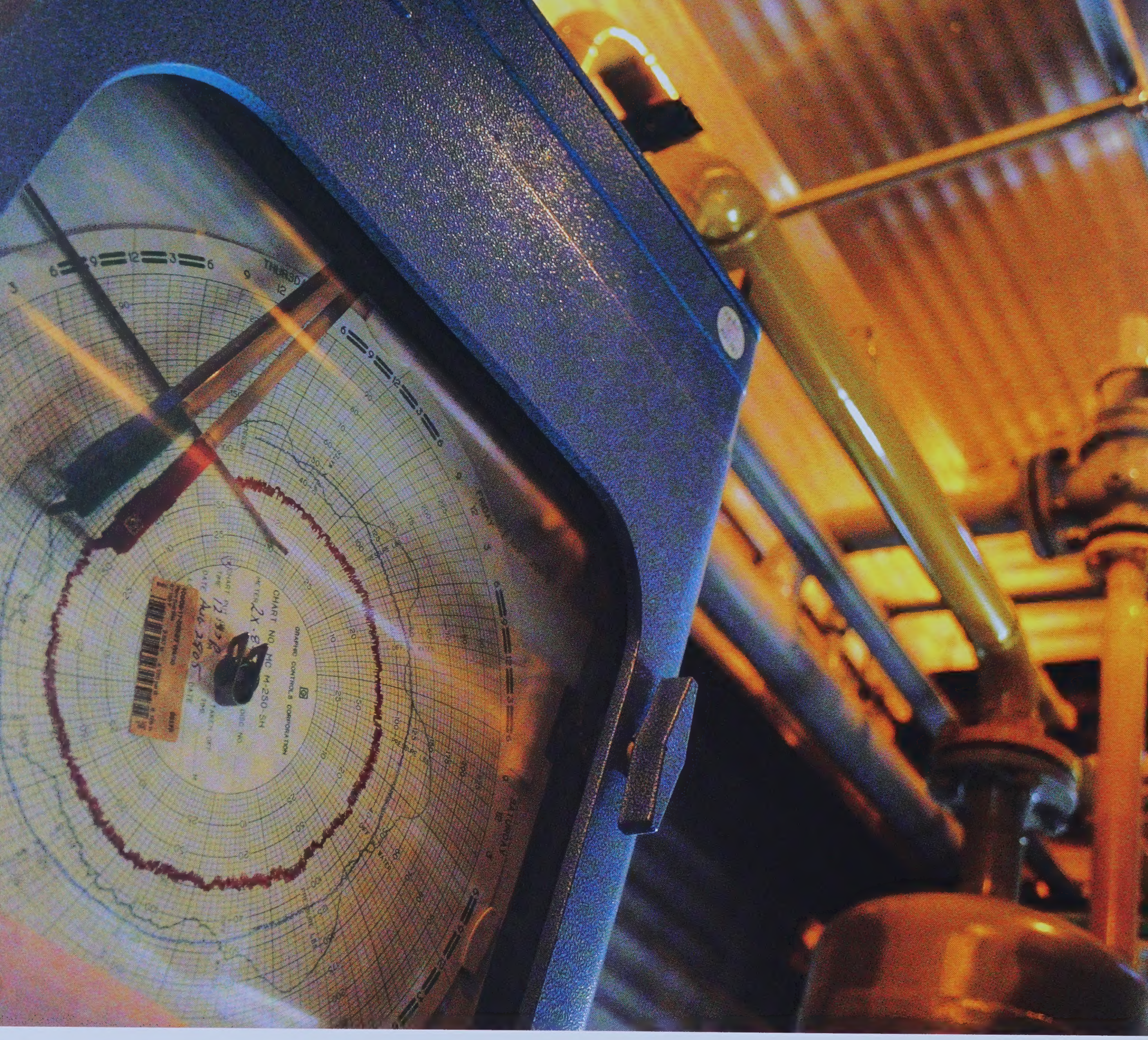
EXPERIENCED TEAM

Our experienced management team has a strong track record of success in exploration and production as well as building value for shareholders

THIS IS **GEOCAN** NOW

2005 Corporate Highlights

	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004	Nine Months Ended Dec 31, 2003	Year Ended Mar 31, 2003	Year Ended Mar 31, 2002
PRODUCTION					
Exit volumes					
Gas (mcf/d)	6,513	1,173	1493	1141	800
Light oil (bbl/d)	740	88	126	137	126
Heavy oil (bbl/d)	1,589	1,722	524	305	152
NGLs (bbl/d) – included in light oil	n/a	n/a	2	8	18
Boepd (@ 6:1)	3,414	2,006	901	640	429
AVERAGE VOLUMES					
Boepd (gas @ 6:1)	2,188	1,465	751	443	309
PRICES					
Gas ($/mcf)	$ 10.21	$ 6.80	$ 5.67	$ 5.65	$ 3.87
Light oil ($/bbl)	$ 59.87	$ 48.47	$ 37.30	$ 41.26	$ 32.62
Heavy oil ($/bbl)	$ 34.15	$ 30.03	$ 25.25	$ 31.23	$ 21.24
RESERVES					
Proven					
Gas (mmcf)	9,051	2,089	1,442	1,377	1,671
Oil and NGL (mbbls)	3,741.4	2,207.6	1,243.9	1,237.8	895.5
Boe equivalents	5,249.9	2,555.8	1,484.2	1,467.3	1,174.0
Probable					
Gas (mmcf)	4,964	1,083	522	219	22
Oil and NGL (mbbls)	1,818.1	1,294.9	843.1	619.4	260.1
Boe equivalents	2,645.4	1,475.4	930.1	655.8	263.8
Proven and probable					
Gas (mmcf)	14,015	3,172	1,964	1,596	1,693
Oil and NGL (mbbls)	5,559.5	3,502.5	2,087.0	1,857.2	1,155.6
Boe equivalents	7,895.3	4,031.2	2,414.3	2,123.1	1,437.8
CANADIAN LAND (acres)					
Gross	164,290	97,586	49,003	29,153	27,175
Net	125,536	84,303	41,272	22,445	14,468



"GEOCAN DELIVERED ON EACH OF ITS STRATEGIC COMMITMENTS IN 2005, AND IN THE PROCESS WE TOOK OUR COMPANY TO AN EXCITING NEW STAGE IN ITS EVOLUTION, POSITIONING OURSELVES FOR ACCELERATED GROWTH."

Executives' Message to our Shareholders

"AS A RESULT OF THESE INITIATIVES, GEOCAN NOW IS A SUBSTANTIALLY LARGER COMPANY THAN IT WAS AT THE START OF 2005, WITH HIGHER VOLUMES, MORE CASH FLOW, MORE PROSPECTS AND MORE OPPORTUNITIES"

GEOCAN delivered on each of its strategic commitments in 2005, and in the process we took our company to an exciting new stage in its evolution, positioning ourselves for accelerated growth.

- **ACQUISITIONS**

  We are committed to making focused, strategic acquisitions that add value for shareholders. Our acquisition in 2005 of Assure Energy, Inc. was very well received in the market and accretive to Assure and GEOCAN shareholders.

- **ASSET BASE**

  We are committed to increasing GEOCAN's natural gas and light oil assets through both strategic acquisitions and internal development. As a result of the acquisition of Assure, our total P+P reserves are now more evenly distributed 33% natural gas, 30% light and medium oil, and 37% heavy oil, compared with 13% gas, 7% light and medium oil, and 80% heavy before the purchase. We now hold 101,697 net acres of undeveloped land.

- **PEOPLE**

  We are committed to building an experienced team with a wide range of essential skills and in 2005 we brought on board a group of talented individuals who are energized to take GEOCAN to the next level.

As a result of these initiatives, GEOCAN now is a substantially larger company than it was at the start of 2005, with higher volumes, more cash flow, more prospects and more opportunities.

POWERING AHEAD

For the interest of our new shareholders, we founded GEOCAN in 1998 as a junior capital pool with $200,000. We have made strategic corporate or asset acquisitions essentially every year since then and each one has been accretive to shareholders. The result: GEOCAN now has an enterprise value of over $130 million.

Our $51.5 million strategic acquisition of Assure, which was completed in September 2005, brought to GEOCAN a balance of stable, low-decline reserves and exciting new prospects that have given the Company a greater natural gas focus. In late 2004, the Board of GEOCAN mandated the Company's management to seek a strategic acquisition to lessen our reliance on heavy oil, and the acquisition of Assure accomplished this.

GEOCAN is opportunity driven, and heavy oil was an excellent starting point for the Company in its early years. With its low exploration and development costs and high success rates, heavy oil gave us flexibility and allowed us to be self-sufficient, providing the Company with steady cash flow. In short, a start in heavy oil established a solid foundation for the Company. GEOCAN's intention from the start has been to build a traditional E&P company with a balance of commodities and 2005 was a milestone in this direction.

From our inception west of the 3rd Meridian (Saskatchewan; heavy oil), we began the process of acquiring land 'west of 4' (east-central Alberta) and 'west of 5' (central Alberta/Rocky Mountain foothills). With the Assure acquisition, we added a group of high-quality natural gas and medium to light oil assets in and around our existing operating areas in western Canada. Moreover, it established us in a whole new core geographic area – 'west of 6' (northeast British Columbia). These assets are an excellent fit with our new team's exploration and development skills.

In November, GEOCAN completed the construction of the Osborne/East Currant gas plant, a project initiated by Assure during the summer. The commissioning of this new, 10 mmcf/day facility brought 500 boepd (net) of new natural gas production on stream for GEOCAN. In another initial step after the Assure transaction, GEOCAN reactivated wells in the acquired Chauvin/Ribstone area, doubling production to 500 boepd at these properties within three months.

A similar approach was taken with regard to the $20.5 million in assumed debt that was part of the $51.5 million purchase price of

"WITH THE ASSURE ACQUISITION, WE ADDED A GROUP OF HIGH-QUALITY NATURAL GAS AND MEDIUM TO LIGHT OIL ASSETS IN AND AROUND OUR EXISTING OPERATING AREAS IN WESTERN CANADA. MOREOVER, IT ESTABLISHED US IN A WHOLE NEW CORE GEOGRAPHIC AREA – 'WEST OF 6' (NORTHEAST BRITISH COLUMBIA). THESE ASSETS ARE AN EXCELLENT FIT WITH OUR NEW TEAM'S EXPLORATION AND DEVELOPMENT SKILLS."

"IMMEDIATELY AFTER THE ASSURE PURCHASE, WE STRENGTHENED OUR FINANCIAL POSITION WHEN WE RAISED JUST OVER $20 MILLION IN OCTOBER THROUGH A BOUGHT DEAL PRIVATE PLACEMENT FINANCING. THE FINANCING WAS OVERSUBSCRIBED; SUBSEQUENTLY INCREASED AND WAS CLOSED IN SHORT ORDER."

Assure. In four months – September through to December – we had settled most of the payables, re-establishing solid relationships with former Assure service providers.

Immediately after the Assure purchase, we strengthened our financial position when we raised just over $20 million in October through a bought deal private placement financing. The financing was oversubscribed; subsequently increased and was closed in short order. The transaction parameters and its closing in less than a month was an affirmation by the market of the excellent metrics of the Assure acquisition. GEOCAN will use the proceeds to fund its ongoing exploration and development program through 2006 and into 2007. We believe the success of the financing also demonstrates a growing, broader appreciation of the qualities of the GEOCAN enterprise and of how we have been delivering on our strategic commitments since our founding in 1998.

Historically, GEOCAN has enjoyed a high success rate in drilling. From 1998 to 2005, we participated in 100 wells (drilling, recompletions and re-entries) and our overall success rate in that period averaged 86%, well above the industry average. In 2005, we drilled 23 gross wells with an 87% success rate (nine natural gas, 11 oil wells), compared with 31 wells and an 84% success rate in 2004. While the number of wells drilled in 2005 was lower, our focus in 2005 was 'west of 5', with its deeper, higher-cost and higher impact natural gas and light oil targets. The majority of the wells are operated and at 100% GEOCAN working interest.

Exemplifying our growth story is the fact that from our first listing on the Alberta Stock Exchange (later CDNX and the TSX Venture Exchange), we moved to the Toronto Stock Exchange (TSX) in December 2003. This created significantly higher liquidity and exposed us to further financing opportunities and some of Canada's major investment funds. To the advantage of all existing shareholders, every financing we have done has been at progressively higher prices. From a junior capital pool with 100% retail investors, we have transitioned into a company that is now approximately 35% institutionally owned with 27% of its shareholders outside of Canada. Additionally, GEOCAN is generating more coverage from more industry analysts than ever before.

GEOCAN has a great story to tell – both in terms of our history and our future. We plan to tell the market this story in the months ahead. We believe GEOCAN stock continues to be undervalued in comparison to some of our peers, and to help address this we have hired two investor relations firms – one in Canada and one in the United States – to provide strategic counsel, ensuring we are getting our message across effectively to a wider audience.

As a result of drilling success and the acquisition of Assure, year-end independently assessed P+P reserves increased 230% to $135.0 million (NPV10%) compared to $40.9 million (NPV10%) in 2004. Volumetrically, P+P reserves additions were up 105% to 7,895,300 boe's from 4,031,200 boe's in 2004. Of note, the Company's P+P reserves were allocated 30% to light and medium oil, 33% to natural gas and 37% to heavy oil in 2005 thereby attaining the Company's goal of an even distribution across all three commodities. As a point of reference, 2004 P+P reserves were weighted 80% to heavy oil, 13% to natural gas and 7% to light and medium oil.

GEOCAN's gross revenues totalled $33.4 million in 2005, up 99% from $16.8 million in 2004. Cash flow more than kept pace, increasing 97% in 2005, totalling approximately $13 million as compared with $6.6 million in 2004. While operating costs rose 23% on a boe basis, the fourth quarter operating costs started to reflect the lower cost structure of the natural gas and light oil acquired by GEOCAN through the Assure transaction. General and administrative costs were essentially flat on a boe basis at $2.74/boe. The impact of the G&A efficiencies resulting from the Assure acquisition had not taken full effect by year-end.

Total capital assets increased 199% to $107.6 million in the year, up significantly from $35.9 million in 2004, in large part due to the Assure acquisition.

"PROVEN AND PROBABLE RESERVES INCREASE 230% TO $135.0 MILLION (NPV10%) COMPARED TO $40.9 MILLION (NPV10%) IN 2004. VOLUMETRICALLY, PROVEN AND PROBABLE RESERVES ADDITIONS WERE UP 105% TO 7,895,300 BOE'S FROM 4,031,200 BOE'S IN 2004. OF NOTE, THE COMPANY'S PROVEN AND PROBABLE RESERVES WERE ALLOCATED 30% TO LIGHT AND MEDIUM OIL, 33% TO NATURAL GAS AND 37% TO HEAVY OIL IN 2005 THEREBY ATTAINING THE COMPANY'S GOAL OF AN EVEN DISTRIBUTION ACROSS ALL THREE COMMODITIES."

YEAR-END FINANCIAL RESULTS

	Year Ended Dec 31, 2005	Year Ended Dec 31, 2004	Nine Months Ended Dec 31, 2003	Year Ended March 31, 2003	Year Ended March 31, 2002
GROSS REVENUE					
(from all sources)	**$ 33,381,746**	$ 16,788,351	$ 6,263,986	$ 5,493,768	$ 3,045,363
CASH FLOW FROM OPERATIONS	**$ 12,972,434**	$ 6,590,332	$ 2,091,360	$ 1,875,883	$ 564,843
Per basic share	**$ 0.40**	$ 0.40	$ 0.17	$ 0.20	$ 0.09
Per diluted share	**$ 0.34**	$ 0.39	$ 0.17	$ 0.18	$ 0.06
AFTER TAX NET INCOME (loss)	**$ 1,552,666**	$ (1,155,226)	$ (375,490)	$ 424,145	$ (383,115)
Per basic share	**$ 0.05**	$ (0.07)	$ (0.03)	$ 0.05	$ (0.06)
Per diluted share	**$ 0.05**	$ (0.07)	$ (0.03)	$ 0.04	$ (0.06)
CAPITAL EXPENDITURES	**$ 19,905,887**	$ 23,869,948	$ 6,254,181	$ 4,439,052	$ 3,780,550
EQUITY	**$ 67,779,426**	$ 17,719,718	$ 7,193,581	$ 4,376,825	$ 3,648,394
SHARES OUTSTANDING (000s)					
Average basic	**32,419**	16,523	12,123	9,390	6,277
Year-end basic	**54,481**	23,870	14,310	9,668	9,093
Year-end diluted	**63,075**	28,172	15,575	10,632	9,091

At year-end, the Company held a strong balance sheet position with total shareholders equity of $67.7 million compared to net debt of $20.8 million, which equates to a 1:3.3 times debt-to-equity coverage ratio. When compared to GEOCAN's $112 million market capitalization at December 31, 2005, the Company's net debt of $20.8 million equated to a 5.4 times debt coverage ratio.

Through land sales and the Assure acquisition, GEOCAN expanded its portfolio of gross undeveloped land to 128,818 acres in 2005, a 67% increase from 2004. Most of this land is in gas-prone areas and is a significant asset, providing GEOCAN with a portfolio of drilling prospects well into 2006 and beyond. At current land prices, the value of this land could approximate $25 million which is more than double the Company's bank debt of $11 million, a further testament to GEOCAN's financial strength.

In order to make the move into more focused natural gas and light oil production, GEOCAN was successful in recruiting a number of experienced team members with strong success in exploration and production. In a highly competitive job market where good people can be hard to find, we successfully attracted 13 new professionals to GEOCAN in 2005 and early 2006. Today, our team numbers 27 full-time employees and consultants with broad expertise in all the required disciplines, including geology, land, production and accounting. We have built our team strategically, choosing people who have the know-how to explore and produce natural gas and lighter oil in our core areas as we move forward.

In late 2005, we welcomed Rick Musial as Vice President Exploration, and Scott Gordon, P.Eng., as Vice President Engineering and Operations.

"IN 2006, OUR EMPHASIS IS TO GROW ORGANICALLY THROUGH THE DRILL BIT. OUR $30 MILLION CAPITAL PROGRAM WILL BE FUNDED ENTIRELY FROM CASH FLOW AND EXISTING BANK FACILITIES. WE ANTICIPATE DRILLING 34 WELLS (30.33 NET), ACQUIRING MORE LAND WITHIN OUR CORE AREAS, CONDUCTING 3D AND 2D SEISMIC PROGRAMS, AND UNDERTAKING VARIOUS FACILITIES PROJECTS. APPROXIMATELY 65% OF OUR DRILLING PROGRAM OF 10 EXPLORATORY WELLS AND 24 DEVELOPMENT WELLS WILL TARGET NATURAL GAS AND LIGHT OIL."

Rick is managing GEOCAN's geological and geophysical department and spearheading the exploration and development program on our undeveloped land. He has 24 years of geological expertise, which includes working in geographically diverse regions within the Western Canada Sedimentary Basin. Notably, he has drilled over 250 exploration and development wells in a wide variety of geologic plays. During his career he has proven himself as an adept oil and gas finder and at establishing new core areas.

Scott provides strategic direction, engineering expertise and leadership to GEOCAN's engineering and operations department. He has over 20 years of industry and engineering project management experience, and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and the Association of Professional Engineers and Geoscientists of British Columbia. In early 2006, GEOCAN was successful in attracting the rest of Scott's three-person engineering team as well.

Also arriving early in 2006 were: Mary Horan, a senior geologist with 24 years of experience predominantly in the Foothills and Peace River Arch regions of Alberta; and Clay Blakley, C.A., as Manager Finance. Clay comes with both industry experience, as well as six years of experience with a 'Big Four' international accounting firm.

The GEOCAN team that we have in place is both highly competent and enthusiastic. There is a high level of energy, which we are confident will bring with it further growth.

BUILDING FOR THE FUTURE

GEOCAN is now a high-quality, junior oil and gas company, and our aspiration is to grow larger while building additional value for our shareholders. We will remain focused on this strategy and continue to deliver results.

In 2006, our emphasis is to grow organically through the drill bit. Our $30 million capital program will be funded entirely from cash flow and existing bank facilities. We anticipate drilling 34 wells (30.33 net), acquiring more land within our core areas, conducting 3D and 2D seismic programs, and undertaking various facilities projects. Approximately 65% of our drilling program of 10 exploratory wells and 24 development wells will target natural gas and light oil, mostly in high working-interest core areas of northeast British Columbia, west-central Alberta and west-central Saskatchewan. We are targeting exit production at between 4,000 boepd and 4,500 boepd (after declines). As is the case throughout the industry, this will depend on rig availability, success rates, commodity prices and any weather issues that may occur.

While commodity prices will likely be somewhat lower than in 2005, we believe they will continue at historically strong levels. We expect industry activity to be high and, consequently, competition for finite oilfield services to be robust. Our 34-well drilling program equates to approximately 240 days of drilling time, very close to the levels that command a dedicated rig. We believe our company size and our drilling plans are attractive to drilling service companies and, therefore, we will be able to access rigs as required. Having said that, we will continue to be creative and strategic in our approach to managing this high-demand service market, nurturing our relationships with service providers and building alliances with other producers in our core areas to ensure access to drilling rigs at competitive prices when we need them.

GEOCAN will continue to operate over 80% of its production in 2006, providing us the flexibility to move quickly to access services. Our company size is now allowing us to attract more prominent industry partners, companies that have their own abilities to command services when required. Through these farm-ins and joint ventures, we now have gained entry to additional core areas that will accelerate our growth plans.

ACKNOWLEDGEMENTS

In January 2006, GEOCAN was recognized as one of Alberta's fastest growing companies by Alberta Venture magazine. GEOCAN was 14th on their 2005 list of companies under $20 million in revenue, up from 18th spot on the 2004 list. This was our fourth time on the list in the past five years.

Our growth and success didn't just happen. It is a reflection of a considerable amount of hard work and strategic thinking by our management, employees and Board of Directors. In 2005, our Board welcomed two new members – James Cassina, a former director of Assure, and Tom Walter, Q.C. Both gentlemen have brought a wealth of experience to the Company.

We wish to thank everyone involved in GEOCAN for their efforts in building our company. We are very excited about the future prospects for our enterprise and we look forward to delivering on our strategic commitments to build value for our shareholders in the months and years to come.

On behalf of the Board of Directors,

WAYNE S. WADLEY, C.E.T.
President, Chief Executive Officer and Director

BRAD J.S. FARRIS, B.COMM, M.EC
Vice President Finance, Chief Financial Officer and Director

Events of 2005

> JANUARY

GEOCAN selected #18 among Alberta Venture magazine's fastest growing companies (under $20 million in revenues) at awards ceremony in Edmonton.

> FEBRUARY

Joe Ebeling joins GEOCAN as Senior Geoscientist and Trevor Duncan as Area Geologist.

> MARCH

Completion of three separate 3D seismic programs totalling 139 square miles.

> APRIL

April 30 sees the expiry of a one-year commodity hedge on 500 boepd of oil production.

> MAY

Drilled and cased three of four heavy oil wells.

> JUNE

GEOCAN completes its interpretation of the three separate seismic programs with drilling to follow in all three prospect areas in late 2005 and 2006.

> JULY

Announce agreement to acquire all the issued and outstanding common shares of Assure Energy, Inc. on the basis of 0.70 of a GEOCAN common share for each common share of Assure.

> AUGUST

Drilled and cased first of two natural gas wildcat exploration wells at North Tomahawk.

> SEPTEMBER

Closed the acquisition of Assure Energy, Inc. adding three new core areas and 750 boepd of light oil and natural gas.

> OCTOBER

Closed $20 million bought deal equity financing at $1.85 per common share.

Commenced the reactivation of numerous wells at recently acquired [illegible] [illegible] there by [illegible]

> NOVEMBER

Drilled and cased second of two natural gas new pool wildcat exploration wells at North Tomahawk.

> DECEMBER

Appointed two new senior executives, Rick Musial as Vice President Exploration, and Scott Gordon as Vice President Engineering and Operations.

Investor Relations

GEOCAN Energy Inc. plans an active investor relations ("IR") program in 2006 to build awareness about the Company and foster strong communications and trust with our shareholders. Further to this end, GEOCAN has now employed two IR firms: Hedlin Lauder Investor Relations Ltd., which is based in Calgary, Alberta, Canada and Enercom Incorporated, which is based in Denver, Colorado, U.S.A. to assist GEOCAN with this program.

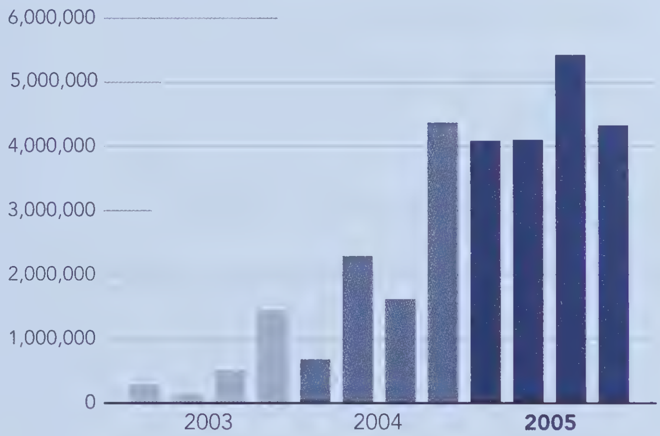
The program is designed to provide relevant and timely information about GEOCAN's strengths and growth potential so all parties can make informed decisions regarding investment in the Company. As the rules defining full and fair disclosure become complex, an IR program plays a more critical role than ever, translating data into information that not only is available to all parties but is also pertinent, reliable and timely.

Another role of our IR program is to interpret correctly the market's perception of GEOCAN's value. We value your feedback because it is ultimately our job as management to direct GEOCAN in a way that drives sustainable, dependable value for you, the shareholder.

As we look at new opportunities to grow GEOCAN, we have to do so with an eye to how our investors will understand and value these business decisions. To do that effectively, we need to know which factors are truly driving the market's assessment of our value. It is important to us that you understand our business.

You can stay up to date by referencing our website at www.geocan.com , SEDAR (www.sedar.com) or CanadaNewsWire (www.newswire.ca) for our most recent press releases. In this increasingly complex world of investor relations and the need for full and fair disclosure, it is our goal that through our communiqués we will answer your questions and provide the information you need.

QUARTERLY TRADING VOLUME



NUMBER OF SHARES	Dec 31, 2005	Dec 31, 2004
Outstanding at period end		
Basic	**54,481,301**	23,870,141
Stock options	**2,162,549**	–
Warrants	**4,891,172**	–
Preferred shares	**1,539,910**	–
Diluted	**63,074,932**	23,870,141
Average for the period ended		
Basic	**32,419,391**	16,523,009
Stock options	**2,162,549**	–
Warrants	**3,037,898**	–
Preferred shares	**480,958**	–
Diluted	**38,100,979**	16,523,009

Reserves Assessment

DECEMBER 31, 2005 DETAILED RESERVES ASSESSMENT (SPROULE ASSOCIATES LIMITED)

	Before Tax Discounted at (% per year)			
RESERVES CATEGORY	0%	5%	7.5%	10%
Proved				
Developed producing	$ 95,655	$ 84,249	$ 79,831	$ 76,020
Developed non-producing	30,642	24,576	22,357	20,516
Undeveloped	6,553	5,392	4,938	4,547
Total proved	132,850	114,217	107,126	101,083
Probable	63,008	44,111	38,358	33,922
Total proved plus probable	**$ 195,858**	**$ 158,328**	**$ 145,484**	**$ 135,005**
(per share amounts based on shares outstanding on December 31, 2005)				
Proved reserves/avg share (basic)	$ 2.44	$ 2.10	$ 1.97	$ 1.86
Proved reserves/avg share (diluted)	$ 2.18	$ 1.87	$ 1.76	$ 1.66
Proved plus probable reserves/avg share (basic)	$ 3.59	$ 2.91	$ 2.67	$ 2.48
Proved plus probable reserves/avg share (diluted)	$ 3.21	$ 2.60	$ 2.39	$ 2.22
Proved reserves life index (PV10%)				6.6
Proved plus probable reserves life index (PV10%)				9.9

SENSITIVITY ANALYSIS

Based on 2006 projections, the following table outlines the effect of commodity price fluctuations and production volume increases/decreases as they relate to cash flow.

CHANGES IN SELLING PRICE	Cash Flow	Cash Flow/share basic
Natural gas (CAD $1.00/mcf)	+/- $ 1,566,000/yr	$ 0.03
Oil (CAD $1.00/bbl)	+/- $ 655,000/yr	$ 0.02

CHANGES IN PRODUCTION VOLUMES	Cash Flow	Cash Flow/share basic
Natural gas (10%)	+/- $ 2,284,000/yr	$ 0.05
Oil (10%)	+/- $ 1,926,000/yr	$ 0.04

OIL & GAS RESERVES

The December 31, 2005 evaluation by Sproule Associates Limited was prepared in accordance with National Instrument 51-101 reserves definitions. Under this policy, probable reserves were required to be adjusted by a factor to account for risk associated with their recovery. This reconciliation reflects these current proved plus probable reserves definitions.

The reserves table below shows the changes in net Company reserves over the past year. Reserves were added through a combination of acquisitions, recompletions and drilling. The volumes and present values have been evaluated as at January 1, 2006 by Sproule Associates Ltd., independent consulting engineers.

	Heavy Oil (Mbbls)			Light/Medium Oil (Mbbls)			Natural Gas (MMcf)			Oil Equivalent 6:1 (Mboe)		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
December 31, 2004	2,006.2	1,225.0	3,231.2	201.1	69.9	271.0	2,089.0	1,083.0	3,172.0	2,555.5	1,475.4	4,030.9
Extensions	283.4	6.4	289.8	0.0	0.0	0.0	0.0	0.0	0.0	283.4	6.4	289.8
Improved recovery	51.9	33.3	85.2	0.0	0.0	0.0	0.0	0.0	0.0	51.9	33.3	85.2
Technical revisions	(52.7)	(303.3)	(356.0)	332.6	(14.6)	321.4	1,654.0	(417.7)	1,228.3	555.6	(387.5)	168.1
Discoveries	70.6	23.3	93.9	249.6	107.5	357.1	2,736.3	860.0	3,596.3	776.3	274.1	1,050.4
Acquisitions	82.8	61.5	144.3	1,181.1	609.1	1,779.3	3,371.0	3,438.7	6,809.7	1,825.7	1,243.7	3,069.5
Dispositions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Production	(583.1)	0.0	(583.1)	(82.0)	0.0	(82.0)	(800.3)	0.0	(800.3)	(798.5)	0.0	(798.5)
Infill drilling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net revisions	(147.1)	(178.8)	(305.9)	1,681.3	702.0	2,383.3	6,961.0	3,881.0	10,842.0	2,694.4	1,170.0	3,864.4
December 31, 2005	1,859.1	1,046.2	2,905.3	1,882.4	771.9	2,654.3	9,051.0	4,964.0	14,015.0	5,249.9	2,645.4	7,895.3

Comments:
Light oil includes minor natural gas liquids.
Natural gas includes minor solution gas.

The present value of reserves reflects valuations generated by Sproule Associates Limited, and are based on annual projections of net revenues using mid-period discounting methods. Forecasts were prepared by estimating annual production from reserves, product prices, crown, lessor and overriding royalties, mineral taxes, operating expenses and capital costs.

	Company share of remaining reserves		
As of January 1, 2006	Oil & NGL's (mbbl)	Natural Gas (mcf)	mboe (@ 6:1)
Developed producing	3,060.8	5,713	4,013.0
Developed non-producing	595.3	2,289	976.8
Undeveloped	85.3	1,049	260.1
Total proved	3,741.4	9,051	5,249.9
Probable	1,818.1	4,964	2,645.4
Total proved plus probable	5,559.5	14,015	7,895.3

RESERVES REPLACEMENT RATIO

The reserve replacement ratio is a measure of how effective a company is in replacing annual production volumes through the drill bit. The ratio is calculated by dividing net reserves additions excluding acquisitions, dispositions and revisions by annual production volumes.

RESERVES REPLACEMENT RATIO – MBOE'S	Total Proved	Total Proved Plus Probable
Total net additions	1,111.6	1,425.4
Total production	798.5	798.5
Reserves replacement ratio	1.39	1.78

FINDING AND DEVELOPMENT COSTS (F&D)

NI 51-101 specifies how finding and development costs should be calculated, if reported. NI 51-101 requires that exploration and development costs incurred in the year along with changes in the estimated future development costs be aggregated and then divided by the applicable reserves additions. This calculation excludes acquisitions, dispositions and revisions.

FINDING AND DEVELOPMENT EXPENSE – BOE'S	Total Proved	Total Proved Plus Probable
Reserves additions	969,667	1,430,683
Add back production	691,873	691,623
Total additions	1,661,339	1,913,406
Total capital expenditures	$ 23,197,190	$ 25,273,190
Finding and development/Boe	$ 13.96	$ 13.21

RECYCLE RATIO

The recycle ratio is a measure for evaluating how efficiently a company reinvests its capital. It compares the operating netback to that years finding and development costs.

RECYCLE RATIO – BOE'S	
Operating netbacks	$ 18.69
Proven finding and development costs	13.96
Proven recycle ratio	1.34
Proven plus probable finding and development costs	13.21
Proven plus probable recycle ratio	1.41

ACQUISITION COSTS

Acquisition costs is not a defined calculation under NI 51-101. However, as the acquisition of Assure Energy, Inc. on September 8, 2005 was the Company's largest corporate event of 2005 it is relevant for shareholders to understand the price GEOCAN paid to acquire these reserves on a boe basis. GEOCAN also made a minor acquisition on March 1, 2005, acquiring all the assets of joint venture partner Timberwolf Resources Ltd. in the Lloydminster area for cash consideration of $546,942 which is included here. Below is an assessment of acquisition costs associated with reserves acquired in 2005.

ACQUISITION EXPENSE – BOE'S	Total Proved	Total Proved Plus Probable
Reserves acquired	1,967,617	3,273,100
Add back production	106,861	106,861
Total additions	2,074,478	3,379,961
Total acquisition costs	$ 51,541,403	$ 51,541,703
Acquisition costs/Boe	$ 24.85	$ 15.25

COMPARATIVE FINANCIAL SUMMARY

FINANCIAL ($ except where indicated)	**Year Ended Dec 31, 2005**	Year Ended Dec 31, 2004	Percent Change
Gross revenue from all sources	**$ 33,381,746**	$ 16,788,351	99%
Net revenues	**$ 27,772,725**	$ 13,937,682	99%
Production expenses	**$ 9,999,149**	$ 5,433,064	84%
Per unit ($/boe)	**$ 12.52**	$ 10.16	23%
Depletion and site restoration expense	**$ 10,809,221**	$ 7,488,910	45%
Per unit ($/boe)	**$ 13.54**	$ 14.00	-3%
General and administration expense	**$ 2,184,961**	$ 1,451,068	51%
Per unit ($/boe)	**$ 2.74**	$ 2.71	1%
Cash flow	**$ 12,972,434**	$ 6,590,332	97%
Per share (basic)	**$ 0.40**	$ 0.40	-4%
Per share (diluted)	**$ 0.34**	$ 0.39	-13%
After tax net (loss) income	**$ 1,522,666**	$ (1,155,226)	
Per share (basic)	**$ 0.05**	$ (0.07)	
Per share (diluted)	**$ 0.05**	$ (0.07)	
Capital expenditures	**$ 19,905,887**	$ 23,869,948	-18%
Total capital assets (net of depletion)	**$107,639,000**	$ 35,940,709	201%
Average production (boepd)	**2,188**	1,465	49%
Exit production (boepd)	**3,414**	2,006	70%

CANADIAN LAND HOLDINGS

GEOCAN was very active in land acquisitions during 2005. Acquisitions resulted in a 68% increase in the Company's gross acreage and a 67% increase in undeveloped gross acreage. At December 31, 2005, GEOCAN and its subsidiaries held an interest in 164,290 gross (125,536 net) acres and now have an average 76% working interest in all its lands. All Company working interest lands are located in the Western Canada Sedimentary Basin.

During 2005, the Company increased its land holdings by 66,703 gross (41,233 net) acres at an average working interest of 62%. This substantial increase occurred primarily through the September acquisition of Assure Energy, Inc. and its subsidiaries. The acquisition provided GEOCAN a number of new core areas, most notably northeast British Columbia, which contributed over 26,000 gross undeveloped acres. Property acquisitions within GEOCAN's new and existing core areas contributed over 55,000 gross developed and undeveloped acres and direct Crown land sales contributed 10,960 gross/net acres of undeveloped land. The vast majority of the 10,960 gross/net acres acquired at Crown sales targeted natural gas and are located in the central Alberta core area (4,480 gross/net acres) and in gas-prone lands on the Saskatchewan side of the Lloydminster core area (6,440 gross/net acres), with only 40 acres having been acquired specifically for heavy oil.

As a result of this activity, GEOCAN now has in excess of 158 sections of undeveloped land to explore and develop. GEOCAN is continuing to expand its land base in core areas, with an emphasis on increasing holdings in northeast British Columbia, west-central Alberta and northwest Alberta. As an example, GEOCAN will earn an additional 6,400 undeveloped acres in the first quarter of 2006 with a seismic data acquisition in northwest Alberta.

In summary, approximately 75% of gross company acreage is located outside of the Lloydminster area, with 80% of Company undeveloped holdings now located in central and east-central Alberta and northeast British Columbia.

	Developed		Undeveloped		Total	
CANADIAN LAND AQUISITIONS (acres)	Gross	Net	Gross	Net	Gross	Net
Opening balance at December 31, 2004	20,487	15,038	77,100	69,265	97,587	84,303
Additions (dispositions/expiries)						
from land sales in 2005:						
Land sale and lease additions	–	–	–	–	–	–
Central Alberta	–	–	4,480	4,480	4,480	4,480
Lloydminster, AB	–	–	40	40	40	40
Lloydminster, SK	–	–	6,440	6,440	6,440	6,440
Total land sales additions	–	–	10,960	10,960	10,960	10,960
Property additions (net of expiries)						
East Central Alberta	3,923	2,655	4,101	3,020	8,024	5,615
Central Alberta	1,472	845	3,400	2,914	4,872	3,759
Western Alberta	1,280	268	5,760	1,708	7,040	1,976
Lloydminster, AB	800	544	–	–	800	544
Lloydminster, SK	2,937	1,847	684	391	3,621	2,238
British Columbia	4,573	2,702	`26,813	13,439	31,386	16,141
Other areas	–	–	–	–	–	–
Total property additions	14,985	8,861	40,758	21,472	55,743	30,273
Closing balance at december 31, 2005	35,472	23,899	128,818	101,697	164,290	125,536
Total additions	14,985	8,861	51,718	32,432	66,703	41,233

DRILLING RESULTS

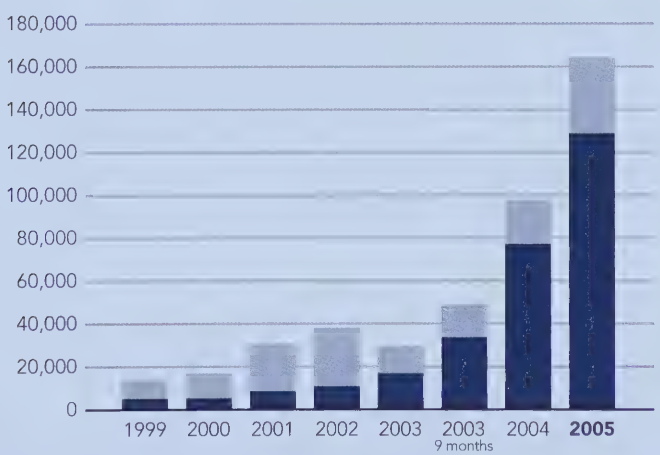
The Company participated in the drilling of 23 gross wells (18.75 net) in 2005 and was in charge of drilling operations in all but six wells. Drilling operations resulted in nine new gas wells, 11 new oil wells and three dry holes for an 87% success rate. Eight of these wells were new pool wildcat discoveries.

At year-end, 10 of these 20 wells were on production, with the other 10 to be brought onto production in 2006 or when deemed economic. The Company had eight new pool discoveries – two at North Tomahawk (central Alberta), one at Entwhistle (central Alberta), four at Buick Creek (northeast British Columbia) and one at Mervin South. GEOCAN had an average 81.5% working interest in the wells drilled during the year.

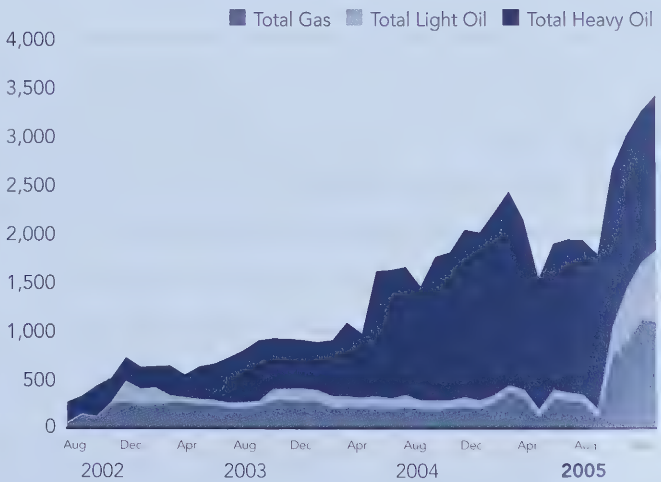
DRILLING ACTIVITY	Gross	Net
Exploratory		
Gas	8.0	3.75
Oil	2.0	2.00
Dry	2.0	2.00
	12.0	7.75
Development		
Gas	1.0	1.00
Oil	9.0	9.00
Dry	1.0	1.00
	11.0	11.00
	23.0	18.75

	2005		2004		2003 (9 Months)		2003		2002	
ANNUAL DRILLING COMPARATIVE	**Gross**	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil	**11**	**11.0**	23	1.00	7	7.00	7	6.00	6	4.90
Natural gas	**9**	**4.75**	3	27.75	7	4.65	4	2.80	0	0.00
Abandonments	**3**	**3.00**	5	11.00	2	2.00	1	0.90	1	0.80
Total	**23**	**18.75**	31	39.75	16	13.65	12	9.70	7	5.70

CANADIAN LANDS (Gross acres)



MONTHLY EXIT VOLUMES (Boepd)



GEOCAN HAS CONTINUED TO SEEK MORE NATURAL GAS AND LIGHT OIL FOR ITS PRODUCTION MIX. WHILE OUR YEAR-OVER-YEAR EXIT PRODUCTION RATE ROSE AN IMPRESSIVE 70%, IT IS MOST NOTEWORTHY THAT THE COMPANY HAS SIGNIFICANTLY REDUCED ITS RELIANCE ON HEAVY OIL – FROM 86% AT THE START OF THE YEAR TO 46% AT YEAR-END. CONCURRENTLY, NATURAL GAS CONTRIBUTED 32% TO THE PRODUCTION MIX AT YEAR-END, UP FROM 10% AT THE START OF THE YEAR, WHILE LIGHT AND MEDIUM OIL HAD RISEN TO 22% BY YEAR-END, UP FROM 4% AT THE BEGINNING OF 2005. THE ASSURE ACQUISITION PLAYED A MAJOR ROLE IN THIS NEW PRODUCTION MIX.

Properties and Operations

GEOCAN also reached a turning point with the drill bit in 2005. With the help of the Assure acquisition, GEOCAN drilled more light oil and natural gas wells in 2005 than heavy oil wells; 12 in its northeast British Columbia and central Alberta core areas versus 11 oil wells in the Lloydminster heavy oil area.

CENTRAL ALBERTA CORE AREA

(NATURAL GAS, LIGHT AND MEDIUM OIL)

Central Alberta has become an increasingly important and active core area for GEOCAN. Over and above the Assure acquisition, GEOCAN has continued to add more natural gas and light/medium oil to the production mix from its existing land base here and has plans to build on this momentum in 2006 and beyond. The Company produced an exit rate of 428 boepd from this core area in 2005.

NORTH TOMAHAWK

GEOCAN shot a 10-square-mile 3D seismic program in the first quarter to evaluate this 100% working interest, six section land block. Five of these sections were posted and purchased by GEOCAN at a Crown land sale in late 2004. Two resulting prospects were drilled in the latter half of 2005, resulting in two new pool natural gas discoveries. These two wells have now been tested and their productive capability justifies the pipeline and facilities work currently underway with plans to have these wells on production in the second quarter of 2006. Drilling in the first quarter 2006 continues in this area.

ENTWHISTLE

At Entwhistle, two 100% working interest, medium-gravity oil discoveries were drilled in the first quarter. These wells have recently produced at combined rates of 90 boepd, but production has been sporadic due to problems related to the high density and sour content of the oil. Blending and facility options have been tested in order to get these wells producing on a permanent basis. With recent sales to nearby facilities, GEOCAN believes a workable blending and facility plan is achievable and, once in place, several follow-up development locations will be drilled.

HELDAR/GREENCOURT

At Heldar/Greencourt, during the first quarter of 2005, GEOCAN participated in a 25% working interest, 18-section 3D seismic program with its royalty trust partner. In the fourth quarter, one 25% working interest well was drilled and cased as a potential gas well. However, upon testing, it was deemed uneconomic.

ABEE

At Abee, near Redwater, two wells were drilled in the first quarter of 2005, resulting in one natural gas well and one dry hole. The natural gas well is expected to produce at rates of 200-300 mcf/d. GEOCAN is currently negotiating to purchase an existing pipeline, with plans to have this well tied in during the second quarter of 2006.

NORTHEAST BRITISH COLUMBIA CORE AREA

(NATURAL GAS AND LIGHT OIL)

As a result of the Assure acquisition, GEOCAN has added a prolific new natural gas core area in northeast British Columbia, comprising five separate fields, of which two are operated by GEOCAN. At year-end, GEOCAN's exit rate from this core area was 691 boepd or 20% of Company production, with the majority of this production coming from Company-operated properties at Osborn/East Currant and West Currant. GEOCAN will be putting increased focus on this new core area in 2006.

WEST AND EAST CURRANT

At Osborn/East Currant, the 10-mmcf/d gas plant came on stream in the fourth quarter. The plant and meter station are directly connected to the Duke pipeline system in British Columbia. GEOCAN has a 50%-operated working interest in this facility, as well as the nearby natural gas well, which came on production at a commingled rate of 6 mmcf/d (3 mmcf/d net). The Osborn/East Currant gas plant complements the 100%-working-interest, 9.5-mmcf/d gas plant at nearby West Currant, giving the Company a solid facilities and infrastructure presence in this northeast British Columbia area.

BUICK CREEK

At Buick Creek, four locations were drilled prior to the closing of the Assure acquisition because the leases were set to expire in August 2005. Seven sections of land were preserved with the drilling of four wells and all four locations were cased for natural gas in the third quarter. GEOCAN holds a 25% working interest in these four wells. These wells have been tested at rates from 180-380 mcf/d. Plans for further drilling and tying-in of the wells are being discussed with the partner/operator.

In the fourth quarter and after the Assure acquisition, GEOCAN drilled its first well in Buick Creek, a 50%-working-interest well that was subsequently cased. The well tested natural gas from two zones and is expected to produce at a combined rate of 2 mmcf/d when it is tied in by the operator in 2006.

LLOYDMINSTER CORE AREA

(HEAVY OIL AND NATURAL GAS)

The Lloydminster area continues to be a significant asset within GEOCAN's growing list of core operating areas. At year-end, Lloydminster contributed an exit rate of 1,660 boepd, made up of both natural gas and heavy oil production. Three 3D seismic programs were shot during 2005 to define additional drilling targets. In 2005, a total of 11 wells were drilled in this area, including three exploration wells and eight development wells. This drilling resulted in nine heavy oil wells and two dry holes.

MERVIN SOUTH

Six wells targeting Waseca sands were drilled in 2005 based on 3D seismic. An exploration well was drilled in the first quarter, followed by three development wells in the second quarter and two more wells in the fourth quarter. This drilling resulted in six successful heavy oil wells.

DEE VALLEY

The drilling of one well at Dee Valley West in the first quarter and one well at Dee Valley in the fourth quarter has resulted in two Sparky heavy oil wells.

NORTHMINSTER

One well was drilled at Northminster during the second quarter, resulting in a successful Sparky heavy oil well.

STAPLEHURST AND EDAM WEST

A Waseca/Colony exploration well was drilled at Edam West in the first quarter and a Waseca exploration well was drilled at Staplehurst in the second quarter. Both wells were abandoned.

CHAUVIN/RIBSTONE CORE AREA

(MEDIUM OIL AND NATURAL GAS)

The Chauvin/Ribstone properties lie just on the Alberta side of the Alberta/Saskatchewan border and came to GEOCAN as a result of the Assure acquisition. These 100%-working-interest operated areas were producing at a 2005 combined exit rate of 507 boepd and both properties are mature, stable producers. GEOCAN personnel worked diligently after the closing of the acquisition through to the year-end, nearly doubling production rates by reactivating wells that were non-producing when acquired because of various downhole and surface mechanical problems.

EAST-CENTRAL ALBERTA

(NATURAL GAS)

GEOCAN now has approximately 30,000 acres of 100%-working-interest land in this natural gas prone area. Land prices have risen significantly since GEOCAN began acquiring land in this area approximately two years ago. The Company plans to accelerate activity here in 2006 by farming out a number of the properties to other companies active in the area.

MISCELLANEOUS AND NON-OPERATED PROPERTIES

(LIGHT OIL AND NATURAL GAS)

GEOCAN produced exit rates of 128 boepd from various operated and non-operated properties throughout Alberta and southeast Saskatchewan. A number of these properties will be reviewed in 2006 and may be rationalized.

CZECH REPUBLIC

In March 2004, GEOCAN agreed to a series of cash settlements totaling CZK 64,075,800 (CAD $3,167,000) in return for the sale of its ownership rights over the Breclav block in the Czech Republic. Pursuant to the Settlement Agreement, GEOCAN and its partners accepted this financial settlement, payable in installments. GEOCAN and its partners have been granted appropriate security, enforceable under the laws of the Czech Republic, for all of Ceska naftarska spolecnost s.r.o.'s ("CNS") obligations under the Settlement Agreement.

GEOCAN continued to receive regular monthly installment payments during 2005 after the Postorna-1 well in the Breclav block resumed production in December 2004. GEOCAN received installment payments of CZK 21,752,265 (approximately CAD $1,031,688) during 2005 under the second phase of the Settlement Agreement. These payments are in addition to the CZK 15,766,950 (CAD $798,141) received in March 2004 and the CZK 894,765 (CAD $47,987) received in December 2004. In total, GEOCAN to date has received CZK 38,413,980 (CAD $1,877,816).

The third party will pay GEOCAN a further CZK 25,661,819 (approximately CAD$1,217,114 at the current rate of exchange) in 12 equal monthly installments following the commencement of production operations from the subject property.

"IN JANUARY 2006, GEOCAN WAS RECOGNIZED AS ONE OF ALBERTA'S FASTEST GROWING COMPANIES BY ALBERTA VENTURE MAGAZINE FOR 2005, RANKED 14TH ON THEIR LIST OF COMPANIES UNDER $20 MILLION IN REVENUE, UP FROM 18TH SPOT ON THE 2004 LIST. THIS WAS OUR FOURTH TIME ON THE LIST IN THE PAST FIVE YEARS."

Management's Discussion and Analysis

The following is the Management's Discussion and Analysis ("MD&A") for the period January 1, 2005 to December 31, 2005 for GEOCAN Energy Inc.

ADVISORY – FORWARD-LOOKING INFORMATION

This MD&A may include certain forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements. However, while we believe these forward-looking statements to be reasonable, we cannot assure the reader that these expectations will prove to be correct. The reader should not unduly rely on these forward-looking statements as these statements speak only as of the date of this MD&A, that being March 30, 2006. Additional information about the Company can be found on www.sedar.com.

Management uses cash flow from operations (before changes in non-cash working capital, other income and asset retirement obligation) to analyze operating performance and leverage. Cash flow as presented does not have any standardized meaning prescribed by the Canadian Generally Accepted Accounting Principles ("GAAP") and therefore it may not be comparable with the calculation of similar measures for other entities. Cash flow as presented is not intended to represent operating cash flow or operating profits for the period, nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to cash flow throughout this report are based on cash flow before changes in non-cash working capital.

Boe's may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101, a boe conversion ratio for natural gas of 6 mcf: 1 bbl has been used. This is based on an energy equivalency conversion method particularly applicable at the burner tip and does not represent a value equivalency at the well head.

	Year Ended December 31		
	2005	2004	Percent Change
Gross revenue	**$ 33,381,746**	$ 16,788,351	99%
Royalty (net of ARTC)	**$ 5,609,021**	$ 2,850,669	97%
Operating costs	**$ 9,999,149**	$ 5,433,064	84%
Cash flow from operations	**$ 12,972,434**	$ 6,590,332	97%
Cash flow per share			
Basic	**$ 0.40**	$ 0.40	0%
Diluted	**$ 0.34**	$ 0.39	-13%
After tax earnings (loss)	**$ 1,552,666**	$ (1,155,226)	
After tax earnings (loss) per share			
Basic and diluted	**$ 0.05**	($0.07)	
Capital expenditures	**$ 19,905,887**	$ 23,869,948	-17%

	Year Ended December 31		
PRODUCTION AND REVENUE	**2005**	2004	Percent Change
Gross oil and gas sales revenue (before other income and gain (loss) on financial instrument)	**$ 32,400,699**	$ 18,236,261	78%
Total production (boe)	**798,534**	534,800	49%
Average daily production (boe)	**2,188**	1,465	49%
Exit daily production (boe)	**3,414**	2,006	70%
Gross sales revenue/boe	**$ 40.58**	$ 34.10	19%
Realized loss on financial instrument/boe	**$ (1.31)**	$ (2.27)	-42%
Gross revenue net of realized loss/boe	**$ 39.26**	$ 31.82	23%

Oil and gas revenues rose 78% to $32,400,699 ($40.58/boe) compared with $18,236,261 ($34.10/boe) in 2004. This excludes other income in 2005 of $1,473,445, made up of predominantly the monthly receipt of the sale proceeds from the 2004 sale of the Breclav property in the Czech Republic and the effects of net realized loss on financial instruments.

While revenues were impacted early in the year by wet weather across western Canada they were bolstered by the acquisition of Assure Energy, Inc. in September 2005, as well as higher commodity prices versus those experienced in 2004. Production averaged 2,188 boepd for the year up 49% from 1,465 in 2004. Of note, fourth quarter 2005 production averaged 2,808 boepd compared with 1,944 in the fourth quarter of 2004.

	Year Ended December 31		
AVERAGE PRODUCTION	**2005**	2004	Percent Change
Gas (mcf/d)	**2,234**	1,247	79%
Light oil (bbls/d)	**222**	113	96%
Heavy oil (bbls/d)	**1,594**	1,144	39%
Equivalent (boepd)	**2,188**	1,465	49%

	Year Ended December 31		
EXIT PRODUCTION	**2005**	2004	Percent Change
Gas (mcf/d)	**6,513**	1,173	455%
Light oil (bbls/d)	**740**	106	595%
Heavy oil (bbls/d)	**1,589**	1,704	-7%
Equivalent (boepd)	**3,414**	2,006	70%

BEFORE TAX NETBACK ($/BOE)			
Operating netback	**$ 18.69**	$ 15.32	22%
Cash flow netback	**$ 14.90**	$ 11.72	27%

Exit production volumes for 2005 were 3,414 boepd, up 70% from 2,006 boepd for 2004. Exit volumes were distributed 32% to natural gas and natural gas liquids (NGL's), 22% to light oil and 46% to heavy oil. Overall, 2005 production of 798,534 was up 49% or 263,734 boe's compared to 534,800 in 2004.

	Year Ended December 31		
AVERAGE PRICES (BEFORE FINANCIAL INSTRUMENTS)	**2005**	2004	Percent Change
Light oil price ($/bbl)	**$ 59.87**	$ 47.99	25%
Heavy oil price ($/bbl)	**$ 34.15**	$ 33.05	3%
Natural gas price ($/mcf)	**$ 10.21**	$ 6.99	46%

Natural gas prices averaged $10.21/mcf for 2005, up 46% from those experienced in 2004. Light oil prices averaged $59.87 in 2005 up 25% from 2004 while heavy oil prices averaged $34.15, up 3% from 2004.

FIELD NETBACK CALCULATION for the year ended Dec 31	**2005** (per boe)	2004 (per boe)	**2005 Heavy** (per bbl)	2004 Heavy (per bbl)	**2005 Light** (per bbl)	2004 Light (per bbl)	**2005 Nat Gas** (per mcf)	2004 Nat Gas (per mcf)
Revenues	**$ 40.58**	$ 34.10	**$ 34.15**	$ 33.05	**$ 59.87**	$ 47.99	**$ 10.21**	$ 6.99
Realized hedge loss	**(1.31)**	(2.27)	**(1.13)**	(2.13)	**(0.18)**	(0.15)	**–**	–
Royalty expense	**(7.01)**	(5.33)	**(5.57)**	(4.37)	**(8.19)**	(10.43)	**(2.23)**	(1.69)
Transport expense	**(1.03)**	(1.01)	**(1.03)**	1.01	**(1.03)**	1.01	**(0.22)**	0.17
Operating expense	**(12.52)**	(10.16)	**(13.34)**	(10.88)	**(10.52)**	(12.81)	**(1.21)**	(1.05)
	$ 18.69	$ 15.32	**$ 13.08**	$ 14.66	**$ 39.95**	$ 23.60	**$ 6.55**	$ 4.08

Overall GEOCAN netbacks were up 22% in 2005 at $18.69/boe as compared with $15.32/boe in 2004, driven by significantly higher netbacks on natural gas which were up 61% to $6.55/mcf and light oil which were up 69% to $39.95/bbl. These figures reflect the significant impact that increased natural gas and light oil production had on overall cash flow. Heavy oil netbacks decreased 11% to $13.08/bbl underscoring GEOCAN's strategic shift to a more balanced portfolio of commodities that lead to the Assure acquisition.

	Year Ended December 31		
ROYALTY EXPENSE	**2005**	2004	Percent Change
Royalty (net of ARTC)	**$ 5,609,021**	$ 2,850,669	97%
$/boe	**$ 7.02**	$ 5.33	32%
% of revenue	**17%**	17%	

Royalty expense in 2005 was $5,609,021 (net of Alberta Royalty Tax Credits ("ARTC")) or $7.02/boe compared with $2,850,669 or $5.33/boe in 2004. This 32% year-over-year increase on a boe basis results from higher commodity prices and the indexing of royalties to those higher commodity prices, as well as the higher royalty rates associated with natural gas and light oil resulting from the Assure acquisition.

	Year Ended December 31		
PRODUCTION OPERATION EXPENSE	**2005**	2004	Percent Change
Operating costs	**$ 9,999,149**	$ 5,433,064	84%
$/boe	**$ 12.52**	$ 10.16	23%

Operating expenses in 2005 were $9,999,149 ($12.52/boe) compared with $5,433,064 ($10.16/boe) in 2004. This increase on a boe basis is due to cost increases across the oilfield services industry in areas such as field operations, workovers, fuel and down-hole equipment.

Of note, operating costs in the fourth quarter were $12.23/boe, down significantly from $13.96 in the third quarter of 2005, a reflection of the lower costs associated with natural gas and light oil, commodities which increased their weighting at GEOCAN after the Assure acquisition. GEOCAN anticipates further operational efficiencies in 2006 as a result of recent key personnel added to the operations department and by bringing programs previously contracted out in-house to be managed by GEOCAN personnel.

	Year Ended December 31		
TRANSPORTATION EXPENSE	**2005**	2004	Percent Change
Transportation costs	**$ 821,363**	$ 542,761	51%
$/boe	**$ 1.03**	$ 1.01	1%

Transportation expense for 2005 was $821,363 ($1.03/boe) compared with $542,761 ($1.01/boe) in 2004. Transportation expenses vary little as they are predominantly based on rates that are fixed through long term delivery contracts. Transportation tariffs are reported separately as a result of the Handbook Section 1100 issued by the Canadian Institute of Chartered Accountants ("CICA").

	Year Ended December 31		
GENERAL AND ADMINISTRATIVE EXPENSES	**2005**	2004	Percent Change
General and administration	**$ 2,184,961**	$ 1,451,068	51%
$/boe	**$ 2.74**	$ 2.71	1%

General and administrative (G&A) costs in 2005 were $2,184,961 ($2.74/boe) compared with $1,451,068 ($2.71/boe) in 2004. On a boe basis this expense has not changed significantly year over year. Overall G&A expenses are anticipated to decline as higher volumes affect the fixed nature of G&A and as overall synergies take effect after the Assure acquisition. In general, these corporate efficiencies are anticipated to continue throughout 2006.

Capitalized G&A costs for 2005 were $933,031 ($1.16/boe) compared with $625,639 ($1.17/boe) in 2004. As a result, total capitalized and non-capitalized G&A expense in 2005 was $3,117,992 or $3.90/boe, compared with $3.88/boe in 2004.

INTEREST EXPENSE AND BANK CHARGES		Year Ended December 31 **2005**		2004	Percent Change
Interest expense and bank charges	**$**	**836,816**	$	472,118	77%
$/boe	**$**	**1.05**	$	0.88	19%

Interest expense in 2005 was up 19% on a boe basis to $836,816 compared with $472,118 in 2004. The increase was predominantly a function of debt affiliated with the Assure transaction. Management believes the $20,026,250 financing which closed on October 13, 2005 will reduce the Company's reliance on bank facilities and that should reduce interest expense in 2006.

The Company's revolving and development/acquisition facilities were amended on September 20, 2005 after the Assure acquisition and at year-end were $25 million and $6 million respectively. The revolving facility bear interest at bank prime plus a margin based on various debt to cash flow ratios. The non-revolving acquisition/development demand loan incurs interest at bank prime plus 0.50%. Both lines are under review and management anticipates an increase in both facility limits in line with 2005 reserves additions.

On December 5, 2005, GEOCAN paid off the remaining balance on a non-interest bearing shareholder loan in the amount of $1,340,678 that was inherited through the Assure transaction. On February 2, 2006, the Company made its last quarterly payments on a Canadian dollar denominated and a US dollar denominated note and on February 28, 2006 GEOCAN fully retired this Canadian dollar denominated note, paying CAD $608,003 inclusive of accrued interest, and this US dollar denominated note, paying US$2,141,154 inclusive of accrued interest. These Canadian and US dollar denominated notes bore interest rates of prime plus 3.5% per annum.

DEPLETION, DEPRECATION AND ACCRETION		Year Ended December 31 **2005**		2004	Percent Change
Depletion, depreciation and accretion	**$**	**10,809,221**	$	7,488,910	44%
$/boe	**$**	**13.54**	$	14.00	-3%

Depletion, depreciation and accretion in 2005 totaled $10,809,221 ($13.54/boe), compared with $7,488,910 ($14.00/boe) in 2004. On a boe basis, this 2005 total of $13.54 was down 3% compared with $14.00 in 2004.

CASH FLOW FROM OPERATING ACTIVITIES		Year Ended December 31 **2005**		2004	Percent Change
Cash flow from operating activities	**$**	**12,972,434**	$	6,590,332	97%
Per share (basic)	**$**	**0.40**	$	0.40	
Per share (diluted)	**$**	**0.34**	$	0.39	
Per boe of production	**$**	**16.25**	$	12.32	32%

After tax cash flow from operating activities in 2005 was $12,972,434 ($0.40/share basic) up 97% on an absolute basis as compared with $6,590,505 ($0.40/share basic) in 2004. Cash flow was positively impacted by higher commodity prices and the increased netbacks affiliated with a higher weighting toward natural gas and light oil during the final four months of 2005, after the Assure acquisition.

Cash flow per common share (basic) has not significantly changed versus 2004, a function of the common shares issued for the acquisition (19,287,296 common shares) and the $20,026,250 financing (10,825,000 common shares). As a measurement, cash flow per share does not reflect the strengthening of the year-end balance sheet which resulted from the October financing and only reflects four months of cash flow from the Assure acquisition.

EARNINGS (LOSS) AFTER INCOME TAXES	Year Ended December 31 2005	2004
Earnings (loss) after income taxes	**$ 1,552,666**	$ (1,155,226)
Per share (basic)	**$ 0.05**	$ (0.07)
Per share (diluted)	**$ 0.05**	$ (0.07)
Per boe of production	**$ 1.94**	$ (2.16)

Earnings after income tax for 2005 were $1,552,666 or $0.05/share basic, up significantly from a loss of $1,155,226 or $(0.07)/share basic in 2004. No Federal income tax was incurred in 2005. Current taxes of $396,510 are a combination of Federal Large Corporation Tax and the Saskatchewan Resource Surcharge.

INCOME TAX POOLS	Unsuccessored	Successored	Total
Canadian exploration expense	$ 3,831,386	$ 11,098	$ 3,842,484
Canadian development expense	$ 3,537,791	$ 10,319,876	$ 13,857,667
Canadian oil and gas property expense	$ 9,886,069	$ 3,787,152	$ 13,673,221
Unamortized capital costs	$ 16,574,485	$ –	$ 16,574,485
Non-capital losses	$ 3,999,378	$ –	$ 3,999,378
Share issuance expenses	$ 1,527,342	$ –	$ 1,527,342
Total	$ 39,356,451	$ 14,118,126	$ 53,474,577

Based on GEOCAN's capital expenditure plans, forecasted revenues and expenses, the Company does not anticipate being taxable under Federal Income Tax legislation in 2006. The Company has no outstanding flow-through share obligations at December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES	Year Ended December 31 2005	2004
Liquidity and capital resources		
Working capital deficit	**$ 3,784,779**	$ 5,714,688
Current portion - long term debt	**1,190,221**	–
Revolving loan debt	**10,900,000**	3,735,000
Long term debt	**2,206,559**	–
Preferred shares	**2,739,676**	–
Net debt	**$ 20,821,235**	$ 9,449,688
Share capital	**$ 64,763,778**	$ 18,060,734
Share purchase warrants	**2,094,819**	628,676
Contributed surplus	**657,476**	314,422
Retained earnings	**263,353**	(1,284,114)
Total	**$ 67,779,426**	$ 17,719,718
Net debt to market capitalization	**0.19**	0.28
Debt to equity	**0.31**	0.53

The Company's available credit facilities at year-end 2005 are comprised of a $25 million revolving credit facility and a $6 million development/acquisition facility. Both these facilities are currently under review and, based on 2005 reserves additions, management anticipates increases to the limits of these facilities.

Access to the development/acquisition facility comes as a result of bank approval of the Company's development plans on oilfield facilities projects. Upon the establishment of successful drilling, the development/acquisition line can be subsequently rolled into the revolving credit facility, supported by production and reserves attributable to these new wells. Additional development/acquisition funds can then be requested by the Company for the next group of wells to be drilled subject to bank approval.

As a result of the Assure acquisition, GEOCAN inherited 17,500 Series A Preferred Shares with a deemed value of US$100 each and 5,250 Series B Preferred Shares with a deemed value of US$100. The Series A and B carry a 5% dividend rate. Presented as a long-term liability is $2,739,676 relatng to these preferred shares.

On December 5, 2005 GEOCAN paid off the remaining balance on a non-interest bearing shareholder loan in the amount of $1,340,678 that was inherited through the Assure transaction.

On February 2, 2006, the Company made its last quarterly payments ($50,000 plus interest) on a Canadian dollar denominated note and a US dollar denominated note (US$162,000 plus interest) and on February 28, 2006 GEOCAN fully retired the Canadian dollar denominated note, paying $608,003 (including accrued interest) and the US dollar denominated note paying US$2,141,154 (including accrued interest). These Canadian and US dollar denominated notes bore interest rates of 7.75% each. At year-end 2005, the Canadian dollar denominated subordinated promissory note had an outstanding balance of CAD $650,000 and the US dollar denominated subordinated promissory note had an outstanding balance of US$2,168,000. At year-end 2005 these two notes were classified as long-term debt with $1,190,221 of this amount classified as current.

At the end of 2005, GEOCAN had a working capital deficit of $3,784,779 while drawing its combined $31 million ($25 million revolving production facility and $6 million non-revolving acquisition/development demand loan) facilities down by a further $10.9 million. The long term portion of the Canadian and US dollar denominated notes were $2,206,559 at December 31, 2005. However, and as noted, these were subsequently retired in February 2006.

On a combined basis the Company had net debt from all sources of $20,821,235 representing a debt to equity ratio of 0.31 and a debt to market capitalization ratio of 0.19. GEOCAN therefore remains a going concern. Both of these ratios are down significantly from 2004.

The Company share equity at December 31, 2005, was $67,779,426, the increase predominantly a result of the shares issued for the Assure acquisition in September 2005 and the October 2005 bought deal financing. The Company issued 19,287,296 common shares to acquire Assure Energy Inc. and on October 13, 2005, the Company closed a $20,026,250 financing on a bought deal basis, issuing 10,825,000 common shares (including 1,325,000 common shares issued pursuant to an over-allotment option granted to the underwriters) at a price of $1.85 per share. Gross proceeds of the equity financing were $20,026,250 and these common shares were subject to a hold period that expired on February 14, 2006. There were no broker warrants issued on the financing and broker commissions were 6%. As a result, GEOCAN had 54,481,303 basic and 63,074,932 diluted common shares issued and outstanding at year-end 2005.

FOURTH QUARTER – 2004

GEOCAN's averaged production of 2,808 boepd in the fourth quarter, with its commodity mix positively impacted by an increase in natural gas production and light/medium oil production which averaging 4,271 mcf/day and 533 boepd respectively. Heavy oil production was stable, averaging 1,564 boepd with its contribution to total quarterly average production dropped to 56% from the 76% seen in the third quarter 2005. The fourth quarter average of 2,808 boepd was up 39% as compared to the third quarter.

Compared to the fourth quarter 2004, natural gas contributed an average 25% compared to 10% , light/medium averaged 19% compared to 5% while heavy oils contribution fell to 56% from 85% in the fourth quarter 2004.

Fourth quarter revenues were $11,814,481 up 125% from $5,244,881 in the fourth quarter 2004 and increased 15% over third quarter 2005 revenues of $10,302,349.

The Company drilled six of its 23 wells during the fourth quarter however only one of these wells was tied in by year-end. Two new pool discoveries occurred in the Tomahawk region and one in northeast British Columbia during the quarter. Management believe these wells will be producing by the second quarter 2006.

Royalty expense was $2,063,681 ($7.95/boe) in the quarter. Operating costs (net of transportation) were down on a boe basis – $12.23/boe compared with $13.96/boe in the third quarter. In absolute terms, fourth quarter operating costs were $3,173,912. Transportation expense was $244,207 in the quarter.

Fourth quarter general and administrative expense was $705,457 ($2.72/boe) compared with $3.27/boe in the third quarter, reflecting the absorption of the Assure assets and the inherent economies of scale that result from a larger operation. Fourth quarter interest

expense was $401,139 ($1.55/boe) as compared with $209,039 ($1.13/boe) in the third quarter, a function of debt affiliated with the Assure transaction. On a go-forward basis, management believe the closing of the $20,026,500 bought deal financing on October 13, 2005 will significantly reduce the Company's reliance on its revolving credit facility.

The combination of Federal Large Corporations Tax and the Saskatchewan Resource Surcharge for the year and booked in the fourth quarter was $311,653.

Capital expenditures in the fourth quarter were $8,733,514, resulting in the drilling of six heavy oil wells, as well as the acquisition of 5,200 gross (5,200 net) acres of land and the acquisition of 28 miles of trade seismic in northeast British Columbia. The drilling success rate in the quarter was 83%. This program was financed by funds generated from operations, the Company's development/acquisition facility and in a small part, from the October equity financing.

STATEMENT REGARDING DISCLOSURE CONTROLS

As at December 31, 2005, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on the evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

OUTLOOK

While commodity prices will likely be lower than in 2005, we believe they will continue at historically strong levels. We expect industry activity to be high and, consequently, competition for finite oilfield services to be robust.

In February 2006, the Board of Directors approved the company's 2006 capital program, which includes approximately $30 million for the drilling of 34 gross wells (30.33 net), land acquisitions within core areas, 3-D and 2-D seismic programs and a number of facilities projects. In 2006, our emphasis is to grow organically through the drill bit. Our $30 million capital program will be funded entirely from cash flow and existing bank facilities. Approximately 65% of our drilling program will target natural gas and light oil, mostly in high working-interest core areas of northeast British Columbia, west-central Alberta and west-central Saskatchewan.

In addition to the $22 million allocated to drilling, the 2006 capital program includes $6.5 million in land acquisitions and seismic programs in core areas, which currently encompass 101,697 acres of net undeveloped land. At North Tomahawk, in west central Alberta, where the company made two natural gas discoveries in 2005, approximately $1.5 million is planned for pipeline and facilities projects to bring GEOCAN's 100% working interest natural gas and light oil to market in Q2/06. The 2006 capital program will focus predominantly on GEOCAN's high working-interest, core areas of northeast British Columbia ($5 million), west central Alberta ($17.5 million) and Lloydminster ($7.5 million). In its 2006 drilling program, the company plans to drill 10 exploratory wells and 24 development wells.

The Company plans to fund its 2006 capital program from cash flow and existing bank facilities. Our drilling program equates to approximately 240 days of drilling time and we believe our company size and our drilling plans are attractive to drilling service companies and, therefore, we will be able to access rigs as required. Having said that, we will continue to be creative and strategic in our approach to managing this high-demand service market, nurturing our relationships with service providers and building alliances with other producers in our core areas to ensure access to drilling rigs at competitive prices when we need them. Our company size is now allowing us to attract more prominent industry partners, companies that have their own abilities to command services when required. Through these farm-ins and joint ventures, we now have gained entry to additional core areas that will accelerate our growth plans.

On March 1, 2006 GEOCAN announced the company had signed a seismic option agreement with a major integrated oil and gas producer. Under the terms of the agreement, the Company will pay up to $2 million to cover a portion of the cost of an 18 square mile 3D seismic program to be shot before spring break-up to earn a 50% undivided interest in 10 contiguous sections of Crown land in the Peace River area of northwestern Alberta. An area of mutual interest for 50% of 68 additional sections is also included in the agreement.

The seismic program will be used to target additional drilling potential offsetting a suspended well that tested significant natural gas rates. The agreement also provides for the Company to participate in the tie-in of this well to earn 50% of the well and two additional sections of land. All of the current Crown lands presently held have an initial term through to 2009.

The Company targets 2006 exit production at between 4,000 and 4,500 boepd (after declines), dependent on rig availability, success rates, commodity prices and access issues related to weather.

CRITICAL ACCOUNTING ESTIMATES

DEPLETION AND DEPRECIATION EXPENSE

The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

FULL COST ACCOUNTING CEILING TEST

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the discounted cash flows expected from production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be significant. Any impairment would be charged as additional depletion and deprecation expense.

ASSET RETIREMENT OBLIGATIONS

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets for the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount for the related asset known as the asset retirement cost. The total future asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is an estimate that is subject to measurement uncertainty and any change would impact the liability.

STOCK BASED COMPENSATION AND SHARE PURCHASE WARRANTS

The Company calculates the fair value of the options granted and share purchase warrants issued. This calculation is based on estimates which could differ significantly from actual results. This could have a significant impact on the financial statements.

INCOME TAXES

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

RISK FACTORS RELATING TO OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION

UNCERTAIN DISCOVERY OF VIABLE COMMERCIAL PROSPECTS

The Company's future success may be dependent upon its ability to economically locate commercially viable oil or gas deposits. The Company can make no representations, warranties or guaranties that it will be able to consistently identify viable prospects, or that such prospects will be commercially exploitable. An inability of the Company to consistently identify and exploit commercially viable hydrocarbon deposits would have a material and adverse effect on the Company's business and financial position. Exploratory drilling is subject to numerous risks, including the risk that no commercially productive oil and gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including unexpected formation and drilling conditions, pressure or other irregularities in formations, blowouts, equipment failures or accidents, as well as weather conditions, compliance with governmental requirements and/or shortages or delays in the delivery of equipment. The inability to successfully locate and drill wells that will economically produce commercial quantities of oil and gas could have a material adverse effect on the Company's business and financial position. The Company's properties are in

various stages of exploration and development. Whether the Company ultimately drills a property may depend on a number of factors including funding; the receipt of additional seismic data or reprocessing of existing data; material changes in oil or gas prices; the costs and availability of drilling equipment; success or failure of wells drilled in similar formations or which would use the same production facilities; changes in estimates of costs to drill or complete wells; the Company's ability to attract industry partners to acquire a portion of its working interest to reduce exposure to drilling and completion costs; decisions of the Company's joint working interest owners; and/or restrictions under provincial regulators.

VOLATILITY OF OIL AND NATURAL GAS PRICES

The ultimate profitability, cash flow and future growth of the Company will be affected by changes in prevailing oil and gas prices. Oil and gas prices have been subject to wide fluctuations in recent years in response to changes in the supply and demand for oil and natural gas, market uncertainty, competition, regulatory developments and other factors which are beyond the control of the Company. It is impossible to predict future oil and natural gas price movements with any certainty. The Company does not engage in hedging activities. As a result, the Company may be more adversely affected by fluctuations in oil and gas prices than other industry participants that do engage in such activities. An extended or substantial decline in oil and gas prices would have a material adverse effect on (i) the Company's access to capital; and (ii) the Company's financial position and results of operations.

INCREASED OPERATING COSTS

Higher operating costs for our underlying properties will directly decrease the amount of cash flow received by the Company. Electricity, chemicals, supplies, reclamation and abandonment and labour costs are a few of the operating costs that are susceptible to material fluctuation.

TITLE TO ASSETS

Although the Company conducts title reviews in accordance with industry practice prior to any purchase of resource assets, such reviews do not guarantee that an unforeseen defect in the chain on title will not arise and defeat our title to the purchased assets. If such a defect were to occur, our entitlement to the production from such purchased assets could be jeopardized.

UNCERTAINTY OF ESTIMATES OF RESERVES AND FUTURE EVENTS

Certain statements included in this report contain estimates of the Company's oil and gas reserves and the discounted future net revenues from those reserves, as prepared by independent petroleum engineers. There are numerous uncertainties inherent in such estimates including many factors beyond the control of the Company. The estimates are based on a number of assumptions including constant oil and gas prices, and assumptions regarding future production, revenues, taxes, operating expenses, development expenditures and quantities of recoverable oil and gas reserves. Such estimates are inherently imprecise indications of future net revenues, and actual results might vary substantially from the estimates based on these assumptions. Any significant variance in these assumptions could materially affect the estimated quantity and value of reserves. In addition, the Company's reserves might be subject to revisions based upon future production, results of future exploration and development, prevailing oil and gas prices and other factors. Moreover, estimates of the economically recoverable oil and gas reserves, classifications of such reserves and estimates of future net cash flows prepared by independent engineers at different times may vary substantially. Information about reserves constitutes forward-looking statements. Further, the future success of the Company depends upon its ability to find, develop and acquire oil and gas reserves that are economically recoverable. As a result the Company must locate, acquire and develop new oil and gas reserves to replace those being depleted by production. Without successful funding, for acquisitions and exploration and development activities, the Company's reserves will decline. No assurances can be made that the Company will be able to find and develop or acquire additional reserves at an acceptable cost.

COMPETITION

The Company engages in the exploration for and production of oil and gas, industries which are highly competitive. The Company competes directly and indirectly with major and independent oil and gas companies in its exploration for and development of desirable oil and gas properties. Many companies and individuals are engaged in the business of acquiring interests in and developing oil and gas properties in Canada, and the industry is not dominated by any single competitor or a small number of competitors. Many of such competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater historical market acceptance than the Company. The Company will compete with numerous industry participants for the acquisition of land and rights to prospects, and for the equipment and labor required to operate and develop such prospects. Competition could materially and adversely affect the Company's business, operating results and financial condition. Such competitive disadvantages could adversely affect the Company's ability to participate in projects with favorable rates of return.

SHORTAGE OF SUPPLIES AND EQUIPMENT

The Company's ability to conduct operations in a timely and cost effective manner is subject to the availability of natural gas and crude oil field supplies, rigs, equipment and service crews. Although none are expected currently, any shortage of certain types of supplies and equipment could result in delays in our operations as well as in higher operating and capital costs.

INTERRUPTION FROM SEVERE WEATHER

The Company's operations are conducted principally in the central region of Alberta, northeastern British Columbia and Saskatchewan. The weather in these areas can be extreme and can cause interruption or delays in our drilling and construction operations.

DEPENDENCE ON THIRD-PARTY PIPELINES

In fiscal 2005, substantially all our sales of natural gas production was effected through deliveries to local third-party gathering systems to processing plants. In addition, the Company relies on access to interprovincial pipelines for the sale and distribution of substantially all of our gas. As a result, a curtailment of our sale of natural gas by pipelines or by third-party gathering systems, an impairment of our ability to transport natural gas on interprovincial pipelines or a material increase in the rates charged to us for the transportation of natural gas by reason of a change in federal or provincial regulations or for any other reason, could have a material adverse effect upon us. In such event, we would have to obtain other transportation arrangements. There can be no assurance that we would have economical transportation alternatives or that it would be feasible for us to construct pipelines. In the event such circumstances were to occur, our netbacks from the affected wells would be suspended until, and if, such circumstances could be resolved.

OPERATING HAZARDS AND UNINSURED RISKS

The oil and gas business involves a variety of operating risks, including fire, explosion, pipe failure, casing collapse, abnormally pressured formations, adverse weather conditions, governmental and political actions, premature reservoir declines and environmental hazards such as oil spills, gas leaks and discharges of toxic gases. The occurrence of any of these events with respect to any property operated or owned (in whole or in part) by us could have a material adverse impact on us. The Company and the operators of our properties, maintain insurance in accordance with customary industry practices and in amounts that we believe to be reasonable. However, insurance coverage is not always economically feasible and is not obtained to cover all types of operational risks. The occurrence of a significant event that is not insured or insured fully could have a material adverse effect on our financial condition.

RESTORATION, SAFETY AND ENVIRONMENTAL RISK

Our operations are in Saskatchewan, Alberta and British Columbia. Certain laws and regulations exist that require companies engaged in petroleum activities to obtain necessary safety and environmental permits to operate. Such legislation may restrict or delay us from conducting operations in certain geographical areas. Further, such laws and regulations may impose liabilities on us for remedial and clean-up costs, personal injuries related to safety and environmental damages, such liabilities collectively referred to as "asset retirement obligations".

EXPIRATION OF LICENSES AND LEASES

The Company's properties are held in the form of licenses and leases and working interests in licenses and leases. If the Company or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Company's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Company's results of operations and business.

CANADIAN GOVERNMENT REGULATION AND INDUSTRY CONDITIONS

The Kyoto protocol, ratified by the Canadian federal government in December 2002, came into force on February 16, 2005. The protocol commits Canada to reducing greenhouse gas emissions to six percent below 1990 levels over the period 2008-2012. The Canadian government released a framework outlining its Climate Change action plan on April 13, 2005. The plan contains few technical details regarding the implementation of the government's greenhouse gas reduction strategy. The Climate Change Working Group of the Canadian Association of Petroleum Producers continues to work with the Canadian and Alberta governments to develop an approach for implementing targets and enabling greenhouse gas control legislation, which protects the industry's competitiveness, limits the cost and administrative burden of compliance and supports continued investment in the sector. As the Canadian government has yet to release a detailed Kyoto compliance plan, the Company is unable to predict the impact of potential regulations upon its business; however, it is possible that the Company would face increases in operating costs in order to comply with the greenhouse gas emissions legislation.

CANADIAN GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of the federal and provincial governments in Canada. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Company is unable to accurately predict what additional legislation or amendments may be enacted. All of the governmental regulations noted below may be changed from time to time in response to economic or political conditions. Company management believes that the trend of more expansive and stricter environmental laws and regulations will continue. The implementation of new or modified environmental laws or regulations could have a material adverse impact on the Company. The Company is subject to various Canadian federal and provincial laws and regulations relating to the environment. The Company believes that it is currently in compliance with such laws and regulations. However, such laws and regulations may change in the future in a manner which will increase the burden and cost of compliance. In addition, the Company could incur significant liability under such laws for damages, clean-up costs and penalties in the event of certain discharges into the environment. In addition, environmental laws and regulations may impose liability on the Company for personal injuries, clean-up costs, environmental damage and property damage as well as administrative, civil and criminal penalties. The Company maintains limited insurance coverage for accidental environmental damages, but does not maintain insurance for the full potential liability that could be caused by such environmental damage. Accordingly, the Company may be subject to significant liability, or may be required to cease production in the event of the noted liabilities.

PROVINCIAL REGULATION – ROYALTIES INCENTIVES AND LAND TENURES

In addition to federal regulation, each province has regulations which govern land tenure, royalties, production rates, extra-provincial export, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced. From time to time the provincial governments of Canada have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced planning projects. Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

QUARTERLY COMPARATIVES	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Gross revenues (from all sources)	**$ 11,814,483**	**$ 10,302,349**	**$ 5,423,804**	**$ 5,841,110**
After tax income (loss)	**$ 672,708**	**$ 1,024,477**	**$ 100,239**	**$ (244,758)**
Per share basic and diluted	**$ 0.02**	**$ 0.04**	**$ 0.00**	**$ (0.01)**
Cash flow from operations	**$ 4,914,429**	**$ 4,727,550**	**$ 1,713,015**	**$ 1,617,440**
Per share basic and diluted	**$ 0.08**	**$ 0.18**	**$ 0.07**	**$ 0.07**
Capital expenditures	**$ 8,733,514**	**$ 1,152,519**	**$ 3,942,265**	**$ 6,077,589**
Debt and working capital	**$ (20,821,235)**	**$ (32,486,403)**	**$ (16,156,260)**	**$ (13,903,330)**
Total assets	**$ 122,205,895**	**$ 110,768,943**	**$ 45,888,532**	**$ 42,962,742**
Share capital	**$ 64,763,778**	**$ 46,753,305**	**$ 18,807,594**	**$ 18,807,594**
Exit daily production boepd	**3,414**	**2,661**	**1,935**	**2,136**

QUARTERLY COMPARATIVES	Q4 2004	Q3 2004	Q2 2004	Q1 2004
As reported				
Revenues (net of realized losses)	$ 5,244,881	$ 4,047,242	$ 4,758,077	$ 2,738,151
After tax income (loss)	$ (647,229)	$ (801,123)	$ 160,378	$ 132,748
Per share basic and diluted	$ (0.04)	$ (0.05)	$ 0.01	$ 0.01
Cash flow from operations	$ 1,339,649	$ 1,964,505	$ 2,083,595	$ 1,202,583
Per share basic and diluted	$ 0.06	$ 0.13	$ 0.14	$ 0.08
Capital expenditures	$ 9,240,448	$ 4,877,164	$ 8,520,301	$ 3,682,035
Debt and working capital	$ (9,449,690)	$ (14,017,367)	$ (12,126,099)	$ (5,881,040)
Total assets	$ 38,000,010	$ 33,554,579	$ 31,508,725	$ 21,557,051
Share capital	$ 18,689,410	$ 9,836,331	$ 9,800,188	$ 7,158,542
Exit daily production boepd	2,006	1,755	1,619	1,189

Management's Report

The accompanying financial statements and the information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies described in the notes to the financial statements. The financial information contained elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains a system of internal controls that provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors were appointed by shareholders of the Company and have conducted an independent examination of the financial statements. The audit committee has reviewed these statements with management and the auditors and has reported to the board. The board of directors has approved the financial statements herein contained.

Wayne Wadley

WAYNE S. WADLEY
President and Chief Executive Officer

BRAD J.S. FARRIS
Vice President Finance and Chief Financial Officer

March 31, 2006

Auditors' Report

To the shareholders of GEOCAN Energy Inc.

We have audited the consolidated balance sheets of GEOCAN Energy Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

March 29, 2006

Consolidated Balance Sheet

		As at December 31
	2005	2004
ASSETS		
Current		
Accounts receivable	**$ 10,181,438**	$ 1,741,724
Prepaid expenses	**763,289**	317,577
	10,944,727	2,059,301
Property and equipment (note 4)	**107,639,000**	35,940,709
Investment (note 5)	**968,266**	–
Goodwill	**2,653,902**	–
	$ 122,205,895	$ 38,000,010
LIABILITIES		
Current		
Bank indebtedness	**$ 650,856**	$ 2,079,767
Accounts payable	**14,078,650**	5,694,222
Cumulative dividend payable (note 9f)	**70,286**	–
Risk management liability (note 10)	**–**	555,677
Bank debt (note 6a)	**10,900,000**	3,735,000
Long term debt – current portion (note 6b)	**1,190,221**	–
	26,890,013	12,064,666
Asset retirement obligation (note 7)	**5,926,421**	2,587,598
Long term debt (note 6b)	**2,206,559**	–
Future income taxes (note 8)	**16,663,800**	5,628,028
Preferred shares (note 9f)	**2,739,676**	–
	54,426,469	20,280,292
SHAREHOLDERS' EQUITY		
Share capital (note 9b)	**64,763,778**	18,060,734
Share purchase warrants (note 9e)	**2,094,819**	628,676
Contributed surplus	**657,476**	314,422
Retained earning (deficit)	**263,353**	(1,284,114)
	67,779,426	17,719,718
	$ 122,205,895	$ 38,000,010

Subsequent event (note 14)

Approved on behalf of the Board:

Wayne Wadley

WAYNE S. WADLEY
President, Chief Executive Officer and Director

RAYMOND CEJ
Director

Consolidated Statement of Operations and Retained Earnings (Deficit)

	Year ended December 31	
	2005	2004
REVENUE		
Revenues (note 10)	**$ 33,381,746**	$ 16,788,351
Less: royalties (net of ARTC)	**(5,609,021)**	(2,850,669)
	27,772,725	13,937,682
EXPENSES		
Operating	**9,999,149**	5,433,064
Transportation	**821,363**	542,761
General and administration	**2,184,961**	1,451,068
Stock based compensation (note 9d)	**421,337**	183,105
Interest and bank charges	**836,816**	472,118
Cumulative dividend on preferred shares (note 9f)	**70,286**	–
Depletion, depreciation and accretion	**10,809,221**	7,488,910
	25,143,133	15,571,026
INCOME (LOSS) BEFORE INCOME TAXES	**2,629,592**	(1,633,344)
Provision for income taxes (recovery)		
Current	**396,510**	4,016
Future (note 8)	**680,416**	(482,134)
	1,076,926	(478,118)
NET INCOME (LOSS) FOR THE PERIOD	**1,552,666**	(1,155,226)
Deficit, beginning of period	**(1,284,114)**	(128,888)
Acquisition of shares in excess of assigned value (note 9g)	**(5,199)**	–
Retained earnings (deficit), end of period	**$ 263,353**	$ (1,284,114)
Income (loss) per share		
Basic	**$ 0.05**	$ (0.07)
Diluted (note 9b)	**$ 0.05**	$ (0.07)

Consolidated Statement of Cash Flows

	Year ended December 31 2005	2004
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ 1,552,666**	$ (1,155,226)
Adjustments for non-cash items:		
Depletion, depreciation and accretion	**10,809,221**	7,488,910
Change in unrealized financial risk management liability (note 10)	**(561,492)**	555,677
Stock based compensation	**421,337**	183,105
Cumulative dividend on preferred shares	**70,286**	–
Future income taxes (recovery)	**680,416**	(482,134)
	$ 12,972,434	$ 6,590,332
Asset retirement obligation settled (note 7)	**(244,102)**	(197,635)
Other income on disposal of asset (note 11)	**(1,031,688)**	(802,584)
Change in non-cash working capital	**(1,268,890)**	(706,455)
	10,427,754	4,883,658
INVESTING		
Capital asset expenditures	**$ (19,905,887)**	$ (23,869,948)
Proceeds on disposition of capital assets (note 11)	**1,031,688**	2,705,368
Assure transaction costs (note 3)	**(2,724,120)**	–
Change in non cash working capital	**(2,086,746)**	3,389,807
	$ (23,685,065)	$ (17,774,773)
FINANCING		
Issuance of common shares (note 9b)	**20,595,730**	10,324,507
Proceeds of debt	**7,165,000**	1,480,000
Repayment of debt affiliated with Assure (note 6)	**(11,755,216)**	
Repurchase of shares (note 9g)	**(10,200)**	–
Share issuance costs (note 9b)	**(1,309,092)**	–
	$ 14,686,222	$ 11,804,507
Increase (decrease) in cash	**1,428,911**	(1,086,608)
(Bank indebtedness), beginning of period	**(2,079,767)**	(993,159)
(Bank indebtedness), end of period	**$ 650,856**	$ (2,079,767)
Supplemental information		
Interest paid	**$ 772,566**	$ 321,840
Taxes paid	**$ –**	$ 4,016

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS

GEOCAN Energy Inc. ("the Company") was incorporated under the Business Corporation Act (Alberta) on January 12, 1998. GEOCAN's principal business is the exploration, exploitation, development and production of petroleum and natural gas reserves in the provinces of Alberta, Saskatchewan and British Columbia.

On September 8, 2005, the Company acquired all the common shares of Assure Energy, Inc. The consolidated statements reflect the operations of GEOCAN Energy Inc. and its wholly-owned subsidiaries for the remainder of the year.

2. ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

B) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, GEOCAN Saskatchewan Inc, GEOCAN Energy CZ s.r.o., Assure Energy Inc, Assure Oil & Gas Corp., Quarry Oil & Gas Ltd. and Westerra 2000 Inc. All inter-company balances and transactions have been eliminated on consolidation.

C) PROPERTY & EQUIPMENT

i) OIL AND GAS PROPERTIES

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized in cost centres on a country-by-country basis. The Company operates in two cost centres, Canada and the Czech Republic. Such costs include land acquisitions, drilling, well equipment, geological and geophysical and administrative expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The accumulated costs, less the costs of unproved properties, are depleted and depreciated using the unit-of-production method based on total proved reserves before royalties as determined by independent evaluators. For purposes of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

Net capitalized costs of the Company's oil and gas properties are subject at least annually to a ceiling test, to ensure that capitalized costs do not exceed an estimate of future net revenues. This latter amount is the aggregate of expected undiscounted future net cash flows from proved reserves and costs of unproven properties. Future cash flows are estimated using expected future prices and costs. If the carrying amount is assessed to be not fully recoverable, the cost centre is written down to its fair value estimated as the present value of expected future cash flows, using forecast prices, from proved and probable reserves and the value of unproved properties. The impairment in the carrying amount would be recognized and charged to current operations as additional depletion. No such charges have been incurred by the Company.

ii) OFFICE EQUIPMENT

Amortization of office equipment is determined using the declining balance method at rates ranging from 20% to 30% per annum.

D) INVESTMENT

The Company accounts for its investments using the equity method of accounting, whereby the investment was recorded at cost and adjusted to recognize after-tax income or losses and reduced by dividends received. The investment is carried at the lower of cost or market value, if the decrease in value is of a permanent nature.

E) GOODWILL

Goodwill represents the excess of cost over the fair value of net assets acquired. Intangible assets are recognized apart from goodwill and are amortized over their estimated useful lives. Goodwill impairment test is carried out in two steps. In the first step, the carrying amount is compared with its fair value. When the fair value exceeds its carrying amount, goodwill is considered not to be impaired and performance under the second step of the impairment test is unnecessary. The second step compares the implied value of the goodwill with its carrying amount to measure the amount of the impairment loss, if any.

F) ASSET RETIREMENT OBLIGATION

The Company recognizes the fair value of its retirement obligation associated with tangible properties in the period in which the liability arises and when reasonable estimates of this fair value can be made. The fair value of this liability is calculated as the present value of the expected future costs of abandonment. The liability is recorded as a long-term liability with a corresponding increase to the carrying amount of the related asset. The liability is increased each reporting period through the accretion of interest up to the future amount of the liability. The accretion is recorded as an expense in the Company's financial statements. The addition to the carrying amount of the asset is depleted on the same basis as the corresponding asset. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the recorded liability and related asset. Actual costs incurred upon settlement of the abandonment obligation are charged against the liability.

G) FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using enacted or substantially enacted tax rates. The effect of change in income tax rates on future income tax liabilities and assets is recognized in income for the period that the change occurs.

H) REVENUE RECOGNITION

Revenues from the sale of crude oil, natural gas and other petroleum products are recorded on a gross basis when the title passes to the purchaser.

I) STOCK BASED COMPENSATION

The Company estimated the fair value of all stock options awarded to the employees and directors using the Black-Scholes method. Compensation expense and a corresponding increase to contributed surplus is recorded over the vesting period based on the fair value of the options granted. When stock options are exercised for common shares, consideration paid by the stock option holders and contributed surplus associated with the stock options are recorded as share capital. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings. If stock options expire the fair value expense that was recorded is removed from contributed surplus and credited to compensation expense in the period it occurs.

J) SHARE PURCHASE WARRANTS

The Company estimated the fair value of share purchase warrants that were issued. Fair value is estimated using the Black-Scholes method. When exercised, the fair value is added to share capital to represent the cost to the Company of issuing the warrants.

K) MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and amortization of property equipment, stock based compensation, stock purchase warrants, income taxes and the asset retirement obligation, are based on estimates. The ceiling test is based on estimates of oil and natural gas reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates and those related to future cash flows used to assess impairment are subject to measurement uncertainty and the impact on the future financial statements resulting from changes in such estimates could be significant.

L) JOINT VENTURES

Some of the Company's oil and gas related activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

M) FLOW-THROUGH SHARES

The Company financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, share capital is reduced and future income taxes are increased at time of renunciation.

N) PER SHARE AMOUNTS

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on per share amounts is recognized on the use of the proceeds that could be obtained upon exercise of the options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

O) FOREIGN CURRENCY TRANSLATION

Financial statements of the Company's foreign subsidiaries are translated using the temporal method, whereby all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Income and expense are translated at rates which approximate those in effect on transaction dates. Gains and losses arising from restatement of foreign currency monetary assets and liabilities for each period are included in earnings.

P) FINANCIAL INSTRUMENTS

The fair market value of bank indebtedness, receivables, other current assets, payables and bank debt approximate their carrying value. From time to time, the Company may use derivative financial instruments to manage exposure to fluctuations in commodity prices and foreign currency exchange rates. All transactions of this nature entered into by the Company are related to an underlying financial position or to future petroleum and natural gas production. The Company does not use derivative financial instruments for speculative trading purposes.

Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded in the consolidated balance sheet as either an asset or liability with changes in fair value recognized in net earnings. Realized gains or losses from financial derivatives related to commodity prices are recognized in crude oil and natural gas revenues as the related sales occur. Unrealized gains and losses are recognized in revenues at the end of the respective reporting period. The estimated fair value of all derivative instruments is based on quoted market prices and/or third party market indications and forecasts.

3. BUSINESS COMBINATION

On September 8, 2005, the Company and Assure Energy, Inc. completed a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement included a common share exchange, pursuant to which holders of common shares of Assure Energy, Inc. received 0.70 common shares of GEOCAN Energy Inc. for each common share of Assure Energy, Inc. they held. In addition, each Assure A warrant holder received 0.54 GEOCAN shares and the Assure B warrant holders received 0.31 GEOCAN shares.

The business combination has been accounted for using the purchase method with the results of operations included in the Consolidated Financial Statements from the date of acquisition.

The purchase price was calculated as follows:

Property, plant and equipment	$	60,675,311
Non-current assets (note 5)		968,266
Current assets (including cash of $445,140)		5,161,524
Goodwill		2,653,902
Current liabilities		(18,757,423)
Long-term debt		(3,634,825)
Preferred shares (note 9f)		(2,739,676)
Share purchase warrants (note 9e)		(749,845)
Asset retirement obligation		(2,545,818)
Future income taxes		(10,751,871)
Net assets acquired	$	30,279,545
Purchase price funded by:		
Common shares issued	$	27,555,425
Costs of transaction paid in cash		2,724,120
	$	30,279,545

4. PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT at December 31, 2005		**Cost**		**Accumulated Amortization & Depletion**		**Net Book Value**
Oil and gas properties	**$**	**120,377,915**	**$**	**36,258,337**	**$**	**84,119,578**
Production equipment	**$**	**31,642,672**	**$**	**8,325,293**	**$**	**23,317,379**
Office equipment	**$**	**405,768**	**$**	**203,725**	**$**	**202,043**
Total	**$**	**152,426,355**	**$**	**44,787,355**	**$**	**107,639,000**

at December 31, 2004		Cost		Accumulated Amortization & Depletion		Net Book Value
Oil and gas properties	$	38,876,580	$	10,543,986	$	28,332,594
Production equipment	$	9,502,489	$	2,106,284	$	7,396,205
Office equipment	$	334,481	$	122,571	$	211,910
Total	$	48,713,550	$	12,772,841	$	35,940,709

During the period, general and administrative expenses of $933,031 (2004 – $625,639) were capitalized pertaining to the Company's exploration, development and property acquisition programs. Property costs of $17,239,900 (2004 – $10,088,214) have been deducted from the future capital costs and $2,412,000 (2004 – $1.6 million) has been added to costs subject to depletion and amortization for the year ended December 31, 2005.

The Company completed a ceiling test and no write-down was required for the year ended December 31, 2005. The following independent engineering consultant's prices and escalation rates were used to undertake the ceiling test:

	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40 API ($ Bbl)	Hardisty Heavy 12 API (Bbl)	Hardisty Llyod-blend 22.3 API ($ Bbl)	Alberta Gas Reference Price Plantgate ($ mmbtu)	Alberta AECO-C Spot ($ mmbtu)	Inflation Rate (%/Yr)	Exchange Rate ($US/$Cdn)
Forecast								
2006	60.81	70.07	37.07	45.32	11.37	11.58	2.5	0.85
2007	61.61	70.99	37.29	45.74	10.63	10.84	2.5	0.85
2008	54.60	62.73	34.23	41.08	8.76	8.95	2.5	0.85
2009	50.19	57.53	32.27	38.13	7.69	7.87	1.5	0.85
2010	47.76	54.65	31.15	36.50	7.39	7.57	1.5	0.85
2011	48.48	55.47	31.94	37.29	7.52	7.70	1.5	0.85

During 2005, GEOCAN fulfilled flow-through share commitments of $4,065,120 as a result of the financing that closed November 22 and November 30, 2004.

5. INVESTMENTS

The Company, through one of its wholly owned subsidiaries, owns 39.77% of the common shares of Keantha Holdings Inc. This investment was acquired as part of the Assure acquisition (note 3). The balance as at September 8, 2005 was $968, 266 and there has been no change to the balance for the period ended December 31, 2005.

6. LOAN FACILITIES

a) The Company has a revolving production loan facility of $25 million and an available non-revolving acquisition/development demand loan facility of $6 million. The revolving facility bears interest at bank prime plus a prime margin based on debt to cash flow ratios. The non-revolving acquisition/development demand loan incurs interest at bank prime plus 0.50%. These lines are secured by a general security agreement and a floating charge debenture in the amount of $75 million over all property and assets of the Company. As at December 31, 2005 $20.1 million remains undrawn.

b) As a result of the acquisition of Assure Energy, Inc., the Company inherited long term debt consisting of a six-year note payable issued by its wholly owned subsidiary Assure Oil & Gas Corp. in the principal amount of $700,000 (the "CAD dollar Note") and a six-year subordinated promissory note payable in the principal amount of US$2,430,000 (CAD $2,934,825), (the "US dollar Note").

The CAD dollar Note accrues interest at prime plus 3.5% per annum. Quarterly payments of principal and interest are due on March 28, June 28, September 28, and December 28. The note is subordinated to all present and future bank debt of the Company and its subsidiaries. As at December 31, 2005 $650,000 is outstanding.

The US dollar Note matures on March 15, 2009. The note accrues interest at prime plus 3.5% per annum. Quarterly payments of principal and interest are due and payable in US dollars on March 15, June 15, September 15 and December 15. The note is unsecured and is subordinated to all present and future bank debt of the Company and its subsidiaries. As at December 31, 2005 US$2,268,000 (CAD $2,746,780) is outstanding.

Ending February 1, 2006, we held the option to repay the principle and interest payments in shares of the company. Subsequent to year-end (note 14), the entire outstanding balance was settled in cash.

c) Upon the acquisition of Assure Energy, Inc., the Company was assigned a US dollar denominated shareholder loan in the amount of CAD $2,964,311 and upon the completion of the Arrangement, as described in Note 3, the Company repaid CAD $1,500,000 of this advance. The amount outstanding to third party lenders at September 8, 2005 was CAD $1,340,628, this amount was retired December 5, 2005.

d) Upon the acquisition of Assure Energy, Inc. the Company inherited an existing bank line of $9,100,000. This amount was retired subsequent to the close of the acquisition.

7. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligations to be $5.9 million at December 31, 2005, based on a total future liability of $11.9 million. These payments are expected to be made over the next 21 years with the majority of the costs incurred between 2015 and 2026.

The Company's credit adjusted risk-free rate of 8% and an inflation rate of 2% were used to calculate the net present value of the asset retirement obligation.

Changes to the asset retirement obligation are as follows:

		Period Ended December 31
		2005
Asset retirement obligation at December 31, 2004	$	2,587,598
Liabilities incurred and acquired during the period	$	3,384,681
Accretion	$	269,798
Asset retirement obligation settled	$	(244,102)
Change in estimate	$	(71,554)
Asset retirement obligation at December 31, 2005	$	5,926,421

8. INCOME TAXES

The provision for (recovery of) income taxes differs from the amount that would have been expected by applying combined federal and provincial corporate income tax rates to income before taxes. The principal reasons for the differences are as follows:

		Period Ended December 31		
		2005		2004
Income (loss) before tax	**$**	**2,629,592**	$	(1,633,344)
Statutory rate		**34.86%**		39.62%
Expected tax (recovery)		**916,675**		(647,131)
Increase (decrease) resulting from:				
Non deductible crown payments		**1,381,086**		790,872
Non-taxable provincial royalty credits (ARTC)		**(16,603)**		(65,064)
Allowable resource deduction		**(820,423)**		(586,824)
Benefit relating to future changes in tax rates		**(792,553)**		(34,904)
Non deductible stock based compensation		**146,878**		72,546
Other		**(134,644)**		(7,613)
	$	**680,416**	$	(478,118)

Future income tax liability is comprised of the following temporary difference:

	Period Ended Dec 31 2005	Year Ended Dec 31 2004
Future tax liabilities:		
Property and equipment	**$ (20,656,364)**	$ (5,517,850)
Flow through share obligation	**–**	(1,569,949)
	(20,656,364)	(7,087,799)
Future tax assets:		
Asset retirement obligation	**2,065,950**	868,770
Share issue costs	**532,431**	376,399
Non-capital losses	**1,394,183**	–
Risk management liability	**–**	214,602
	3,992,564	1,459,771
Future income taxes	**$ (16,663,800)**	$ (5,628,028)

9. SHARE CAPITAL

A) AUTHORIZED

GEOCAN is authorized to issue an unlimited number of Common Shares without nominal or par value.

Unlimited number of Class A voting common shares

Unlimited number of Class B voting common shares

Unlimited number of preferred shares issuable in series

B) CLASS A COMMON SHARES ISSUED

at December 31, 2005	Number	Amount
Balance, December 31, 2004	23,870,141	$ 18,060,734
Issued for the purchase of oil and gas assets	19,287,296	27,555,425
Issued on the exercise of warrants	178,500	359,631
Issued for cash on the issuance of shares	10,825,000	19,262,695
Issued on the exercise of options	325,366	257,105
Contributed surplus related to exercise of options	–	97,918
Repurchase of shares for cash	(5,000)	(5,001)
Share issuance costs net of future tax	–	(824,729)
Balance, December 31, 2005	54,481,303	$ 64,763,778

at December 31, 2004	Number	Amount
Balance, December 31, 2003	14,309,516	$ 7,158,542
Issued for the purchase of oil and gas assets	1,960,000	2,450,000
Issued for cash on a flow through basis	2,197,362	4,065,120
Issued for cash on the issuance of units	4,749,343	6,020,404
Issued on exercise of options	328,470	180,307
Issued on exercise of brokers warrants	325,450	341,723
Contributed surplus related to exercise of options	–	32,610
Tax effect of flow-through share renouncements	–	(1,569,949)
Share issuance costs net of future tax	–	(618,023)
Balance, December 31, 2004	23,870,141	$ 18,060,734

The following table sets forth the computation of basic and diluted earnings per share:

	Number of Shares 2005	2004
Outstanding at period end		
Basic	**54,481,301**	23,870,141
Stock options	**2,162,549**	–
Warrants	**4,891,172**	–
Preferred shares	**1,539,910**	–
Diluted	**63,074,932**	23,870,141
Average for the period ended		
Basic	**32,419,391**	16,523,009
Stock options	**2,162,549**	–
Warrants	**3,037,898**	–
Preferred shares	**480,959**	–
Diluted	**38,100,797**	16,523,009

Anti-dilutive options of 985,000 (2004 – 1,927,686) and anti-dilutive warrants of 1,787,975 (2004 – 2,700,122) have been excluded from the calculation of diluted earnings per share.

C) STOCK OPTIONS

The following stock options are outstanding to certain officers, directors, employees and consultants as of December 31, 2005.

Balance December 31 2004	Exercise Price	Expiry Date	Issued	Expiry	Exercised During the Period	Balance December 31 2005
–	$ 2.08	December 29, 2010	200,000			200,000
–	$ 2.06	December 20, 2010	535,000			535,000
–	$ 2.05	December 8, 2010	250,000			250,000
–	$ 1.85	November 3, 2010	80,000			80,000
–	$ 1.48	March 1, 2010	175,000			175,000
475,000	$ 1.30	December 20, 2009		150,000		325,000
20,000	$ 1.42	September 27, 2009		15,000		5,000
60,000	$ 1.39	August 1, 2009				60,000
198,495	$ 1.29	May 19, 2009		55,831	15,414	127,250
250,000	$ 1.33	June 11, 2009		18,134	9,066	222,800
52,000	$ 1.09	October 1, 2008				52,000
204,920	$ 0.90	August 11, 2008		46,225	50,445	108,250
54,660	$ 0.85	July 19, 2007			15,830	38,830
40,000	$ 0.95	May 15, 2007			40,000	0
50,000	$ 0.95	May 12, 2007			50,000	0
192,500	$ 1.00	January 7, 2007				192,500
233,055	$ 0.74	November 29, 2006			47,555	185,500
97,056	$ 0.47	December 4, 2005			97,056	0
1,927,686			1,240,000	285,190	325,366	2,557,130

D) STOCK BASED COMPENSATION

The Company measures compensation costs using the fair value method for employee and non-employee stock options. These costs have been determined based on the fair value of the option at grant date using the Black-Scholes option-pricing model. A compensation expense of $421,337 (2004 – $183,105) has been recorded in the statement of operations for the year ended December 31, 2005.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31 2005	2004
Expected dividend yield	**0**	0
Stock price volatility	**46%**	98.22%
Risk free interest rate	**3.90%**	4.06%
Expected life of options	**5 years**	5 years

E) SHARE PURCHASE WARRANTS

Balance December 31 2004		Exercise Price $US		Fair Value	Expiry Date	Issued	Expired	Exercised	Balance December 31 2005
1,041,459	$	1.75	$	314,338	May 22, 2006				1,041,459
1,333,213	$	1.75	$	267,082	May 30, 2006	(178,500)			1,154,713
2,374,672			$	581,420		(178,500)	0	0	2,196,172

The Company issued the above purchase warrants during 2004 and the fair value was calculated using the Black Scholes option-pricing model. The warrants entitle the holder to one common share of the Company.

SHARE PURCHASE WARRANTS ($US)

Balance December 31 2004		Exercise Price $US		Fair Value	Expiry Date	Issued	Expired	Exercised	Balance December 31 2005
0	$	1.00	$	680,179	July 2007	1,470,000	0	0	1,470,000
0	$	3.00	$	5,266	April 2008	63,000	0	0	63,000
0	$	3.10	$	7,352	July 2007	245,000	0	0	245,000
0	$	2.50	$	20,677	February 2008	186,725	0	0	186,725
0	$	4.00	$	37,266	June 2009	371,140	0	0	371,140
0	$	4.05	$	4,116	June 2009	42,000	0	0	42,000
0	$	2.50	$	8,699	September 2009	35,000	0	0	35,000
0			$	763,555		2,412,865	–	–	2,412,865

The above warrants were acquired by the Company as a result of the Assure acquisition. The fair value of these warrants was calculated on the date of the acquisition using the Black Scholes option-pricing model. The warrants entitle the holder to one common share of the Company.

CONTINGENT SHARE PURCHASE WARRANTS ($US)

Balance December 31 2004		Exercise Price $US		Fair Value	Expiry Date	Issued	Expired	Exercised	Balance December 31 2005
0	$	1.67	$	609,954	N/A	1,225,000	0	0	1,225,000
0	$	1.90	$	139,890	N/A	314,910	0	0	314,910
0			$	749,844		1,539,910	0	0	1,539,910

The above warrants are a component of the preferred shares that were acquired as a result the Assure acquisition (note 9f). The warrants are contingent upon the conversion of the preferred shares to common stock of the Company. The fair value of the these warrants was calculated on the date of the acquisition using the Black Scholes option-pricing model. The warrants entitle the holder to 0.70 of a common share of the Company.

371,140 share purchase warrants were acquired as a result the Assure acquisition. These are not issuable until the US$4.00 warrants expiring June 2009 are exercised. These have been excluded from fair value and dilutive calculations for the period ending December 31, 2005.

F) PREFERRED SHARES

As a result of the Assure transaction, GEOCAN inherited 17,500 shares of a Series A Preferred Shares ("Series A") with a stated value of US$100 and a cumulative 5% dividend payable in cash or shares of Assure Energy, Inc. common stock raising US$1,750,000. The Series A carries with it a common stock purchase warrant entitling the holder to purchase 0.70 of a share of the GEOCAN common stock at US$1.67 one year after the conversion of the preferred shares. The fair value of the attached warrants was calculated to be $609,954 CDN.

As a result of the Assure transaction, GEOCAN inherited 5,250 shares of a Series B Preferred Stock ("Series B") with a stated value of US$100 and a cumulative 5% dividend payable in cash or shares of Assure Energy, Inc. common stock raising US$525,000. The Series B carries with it a common stock purchase warrant entitling the holder to purchase 0.70 of a share of the GEOCAN common stock, exercisable at US$1.90 at anytime one year after the conversion of the preferred shares. The fair value of the attached warrants was calculated to be $139,891 CDN.

	Series A		Series B	
	Number	Amount	Number	Amount
Balance on September 8, 2005	17,500	$ 2,074,293	5,250	$ 665,383
Conversions	–	–	–	–
Balance on December 31, 2005		$ 2,074,293		$ 665,383

For the period ended December 31, 2005 a cumulative dividend of $70,286 was recorded relating to the above noted preferred shares.

G) NORMAL COURSE ISSUER BID

On April 19, 2005 (February 11, 2004) the Company announced its intention to make a Normal Course Issuer Bid (the "Bid") through the facilities of the Toronto Stock Exchange to acquire for cancellation of up to 1,100,000 common shares of the Company (February 11, 2004 Bid – 715,000 common shares). The bid commenced on April 19, 2005 (February 11, 2004) and will terminate on April 18, 2006 (February 10, 2005). The Company purchased 5,000 common shares under this Bid (February 10, 2004 Bid – 0 common shares) for a total cost of $10,200 (February 10, 2004 Bid – $0). The excess cost over book value of $5,199 the shares purchased was applied to retained earnings.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Effective May 1, 2004, the Company contracted a hedge on WTI ("West Texas Intermediate") for 500 boepd under a costless collar for a one year period, this expired on April 30, 2005. The hedge had a floor of US$29.00 and a ceiling of US$36.50 and was on WTI.

The effect of entering into all derivative financial instruments during 2005 is the recognition of a realized actual loss due to the financial instrument of $1,048,812.

	Year Ended December 31	
	2005	2004
Gross revenue from oil and gas sales	**$ 32,400,699**	$ 18,236,261
Other income	**1,468,367**	324,382
Loss on financial instrument	**(1,048,812)**	(1,216,615)
	32,820,254	17,344,028
Change in unrealized financial risk management liability	**561,492**	(555,677)
	$ 33,381,746	$ 16,788,351

11. CONTINGENT GAIN

In March 2004, GEOCAN's subsidiary agreed to a series of cash settlements totaling 64,075,800 CZK (CAD $3,167,000 based on the exchange rate at the time) in return for the sale of its ownership rights over the Breclav block in the Czech Republic. At the time of sale, the Company had a net book value of $742,166 CAD recorded as part of property and equipment. GEOCAN continued to receive regular monthly installment payments during 2005 after the Postorna-1 well in the Breclav block resumed production in December 2004. GEOCAN's subsidiary has received installment payments of CZK 21,752,265 (approximately CAD $1,031,688) during 2005 under the second phase of the Settlement Agreement. These payments are in addition to the CZK 15,766,950 (CAD $798,141) received in March 2004 and the CZK 894,765 (CAD $47,987) received in December 2004. In total GEOCAN's has received CZK 38,413,980 (CAD $1,877,816) to date.

Pursuant to this Settlement Agreement announced on March 9th, 2004, GEOCAN's subsidiary and its partners accepted this financial settlement, payable in installments. GEOCAN's subsidiary and its partners have been granted appropriate security, enforceable under the laws of the Czech Republic, for all of Ceska naftarska spolecnost s.r.o. ("CNS") obligations under the Settlement Agreement.

Due to the contingent nature of the remaining installments totaling CZK 25,661,820, no further gain on the disposal of this asset is reflected beyond December 31, 2005. These remaining receivables are accrued on confirmation of the monthly production volume.

The third party will pay GEOCAN's subsidiary a further CZK 25,661,820 (approximately CAD $1,217,114 at the current rate of exchange) in twelve equal monthly installments following the commencement of production operations from the subject property.

12. RELATED PARTY TRANSACTIONS

William C. Guinan, a director and corporate secretary of the GEOCAN, is a partner of Borden Ladner Gervais, a law firm that, from time to time, provides legal services to the Company. During the year ended December 31, 2005 the Company paid a total of $429,693 (2004 - $244,482) to this firm for legal fees and disbursements.

Wayne S. Wadley, a director and Chief Executive Officer of GEOCAN, is a sole shareholder in Timberwolf Resources Ltd. ("Timberwolf") a joint venture partner with minor working interests in a limited number of wells in the Lloydminster area. Effective March 1, 2005 the Company acquired all the interests of Timberwolf in the Lloydminster area in exchange for cash consideration of $546,942 (reduced for an outstanding balance owed to the Company of $66,942). As part of the settlement the Company sold its interests in a minor property in the Kerrobert area of Saskatchewan to Timberwolf for a cash payment of $20,000. These transaction values were based on third party engineering reports at a net present value of 10%. The Company's technical and financial personnel assessed the assets as of March 1, 2005.

As of December 31, 2005 there is a current outstanding balance owed to Timberwolf of $18,706 (2004 – $139,428 receivable from Timberwolf).

The transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

13. COMMITMENTS

The Company leases office space under an operating lease expiring in March 2007. Future base rent payable totals $189,416, of which $151,533 is in 2006 and $37,883 in 2007.

14. SUBSEQUENT EVENTS

During February 2006, the Company paid a total principal balance of $650,000 plus accrued interest in two separate transactions, first making its final quarterly payment and then retiring the outstanding balance on the six-year Canadian dollar denominated note. Additionally, and also during February 2006, the Company paid a total of US$2,268,000 (CAD$2,746,780) plus accrued interest also in two separate transactions, first making its final quarterly payment and then retiring the outstanding balance on this six-year subordinated promissory note. The impact of this transaction is the retirement of the remaining long-term debt that was inherited from the Assure acquisition.

15. COMPARATIVE INFORMATION

Certain information provided for the previous period has been restated to conform to the current period presentation.

Board of Directors

JAMES C. CASSINA joined the GEOCAN board in September 2005 as an independent Director. Since 2002, Jim has served as Chairman of Enernorth Industries Inc., an American Stock Exchange listed company that explores for oil and gas in western Canada and has investments in independent power projects in India. He was President of Enernorth from 1998 to 2002.

RAYMOND P. CEJ, Chairman, joined the GEOCAN Board in 2003 as an independent Director on October 1, 2003. Ray has over 30 years of experience in all aspects of the international oil and gas business. Over the course of his career with Shell Canada Limited, Ray held many senior executive positions, retiring as Senior Operations Officer in 1995. More recently Ray was President and CEO of Anadime Corporation and President and COO of Synenco Energy Inc. He was President and CEO of Kyrgoil Corporation (Central Asia) and held the same position at Arakis Energy Corporation (Central Africa). Ray was Chairman of the Canadian National Committee for the World Petroleum Congress and led the bid committee that brought the 16th World Petroleum Congress to Canada. Ray earned his Bachelor of Chemical Engineering from the Royal Military College and his Masters of Chemical Engineering from California Institute of Technology.

BRADLEY J.S. FARRIS is the Vice President Finance, Chief Financial Officer and a founding Director of the Company. Brad spent three years (1993-1996) with Canadian Fracmaster Ltd. as Senior Economist, focusing on international projects in Russia, China, and the Middle East. From 1980 to 1992, he held various financial positions within Gulf Canada Resources Ltd., in the Frontier Development, Corporate Finance and lastly, the International Division, concentrating on exploration and development opportunities in the Middle East, Southeast Asia and Russia. Brad earned a post graduate diploma in International Economics from the University of East Anglia, Norwich, England in 1990 and a B.Comm (Finance) from the University of Calgary in 1980.

WILLIAM C. GUINAN is an independent founding Director and serves as Corporate Secretary and Legal Counsel for the Company. William is partner with the Calgary law firm, Borden Ladner Gervais. He has extensive oil and gas experience in the areas of acquisitions, divestitures, debt and equity financings, regulatory compliance, private placements, export insurance requirements and special warrants and common share offerings. William is currently a Director with a number of other TSX and TSX-V listed oil and gas companies. He graduated from Acadia University with a degree in Business Administration in 1977, completing an M.B.A. and law degree at Dalhousie University in 1982.

THOMAS M. WALTER Q.C. joined the Board in November 2005 as an independent director. Thomas has a wealth of experience from his distinguished legal and business careers. From 1973 to 1998, Mr. Walter was a partner at the Edmonton, Alberta law firm of Berzins, Maher, Walter and MacLean and later was senior partner at Thomas Walter and Company. He continued practicing law in Okotoks, Alberta from 2000 to July, 2005 with the firm of Walter & MacLean, and continues to be very active with the family business and with various local and provincial charities. Thomas holds a BA Econ and an LLB.

WAYNE S. WADLEY is the President, Chief Executive Officer and a founding Director of the Company. Wayne was the Vice-President, Production/Operations for Danoil Energy Ltd. which later became part of Acclaim Energy Trust (now Canetic Resources Trust). From 1989 to 1992, Wayne held the position of Production Superintendent with OMV (Canada) Ltd. an Austrian-based oil and gas production company with operations in Canada. He has extensive experience in oilfield production operations. Wayne is a Certified Engineering Technologist, receiving a Diploma in Petroleum Resources Technology from the Northern Alberta Institute of Technology in Edmonton in 1980.

Corporate Information

(as at March 30, 2006)

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BOARD OF DIRECTORS

RAYMOND P. CEJ P.Eng, M.Eng – **Chairman**, (1) (3) (4)

WAYNE S. WADLEY C.E.T. (5) (4)

WILLIAM C. GUINAN BBA, MBA, LLB (2) (5)

THOMAS WALTER QC, BA Econ, LLB (1) (3) (5)

JAMES C. CASSINA (1) (3)

BRAD J.S. FARRIS B.Comm M.Ec.

(1) Audit Committee
(2) Corporate Secretary
(3) Compensation Committee
(4) Reserves Committee
(5) Disclosure Committee

OFFICERS

WAYNE S. WADLEY
President and Chief Executive Officer

BRAD J.S. FARRIS
Vice President Finance and Chief Financial Officer

SCOTT A. GORDON
Vice President Engineering and Operations

JOHN N. CHARUK
Vice President Land

RICK P. MUSIAL
Vice President Exploration

TRANSFER AGENT AND REGISTRAR

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STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX)
Trading Symbol: **GCA**

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbl	barrel
mbbl	thousands of barrels
boepd	barrels of oil equivalent per day
bopd	barrel of oil per day
bcf	billion cubic feet
Boe	bbl of oil equivalent (natural gas = oil equivalent based on 6mmscf @ 1 bbl of oil)
GORR	Gross overriding royalty
mboe	thousands of bbl of oil equivalent
mcf	thousand standard cubic feet
mcf/d	thousand standard cubic feet per day
mmcf	millions standard cubic feet
mmcf/d	millions cubic feet per day
ngl's	natural gas liquids
kPa	kilopascal
psi	pounds per square inch

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